NLB Group Presentation

1H 2019 Results

NLB Group

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NLB Group

NLB Group Highlights

Key developments in 2019

- On 19 June 2019 privatization process of NLB was successfully completed with RoS's sale of the remaining 10 percent minus 1 share - **the shareholding of RoS was reduced to 25% +1.**

  Release of EC commitments

  Initiated **strategy refresh.**

- The Bank **issued subordinated Tier 2** notes in the aggregate nominal amount of EUR 45 million. The fixed coupon of the notes during the first five years is 4.2% p.a.

- **Standard and Poor's upgraded** NLB to BBB-, a move that takes NLB to the **investment grade.**

- NLB Pay wallet fully activated in 3 group members (others pending).

- In Slovenia 11% of consumer loans already ubderwritten E2E digitally through M-bank app Klikin.

NLB Group

Key performance indicators of NLB Group

		Medium-term targets set in 2018[1]		
	YE 17	*YE 18*	*H1 19*	*Medium term*
Net interest margin[2]	2.57%	2.56%	2.54%	>2.7%
Loans to deposits ratio	70.8%	68.3%	67.7%	<95%
Total capital ratio	15.9%	16.7%	16.5%	~16.25%
Cost-income ratio	58.4%	58.5%	54.9%	~50%
Cost of risk[3]	-62 bps	-43 bps	0 bps	<90bps[6]
Return on equity (RoE)	14.4%	11.8%	11.4%	>12.0%
Dividend payout	84%[5]	70%	/	~70%[7]
NPE ratio[4]	6.7%	4.7%	4.1%	<4.0%

Source: Company information

Note: (1) Target set by NLB management as a part of their financial projections for 2019-2023; (2) Calculated on the basis of interest bearing assets; interest margin data for 2018 are adjusted to new methodology (calculation based on the number of days for the period). (3) Calculated as credit impairments and provisions over average net loans to customers; (4) Based on EBA definition. (5) Payout calculated based on 2017 profit. Total dividend paid for 2017 amounted to EUR 270.6 million (EUR 189.1 million of profit for 2017 and EUR 81.5 million of retained profit from previous years) i.e. dividend payout 120%. (6) CoR < 90bps should be read as NLB Group's limit that should not be exceeded even in deteriorated economic conditions. (7) The payment of dividends by NLB, will depend on NLB's capital structure, risk appetite, profits, financial condition, regulatory requirements, general economic and business conditions, and future prospects.

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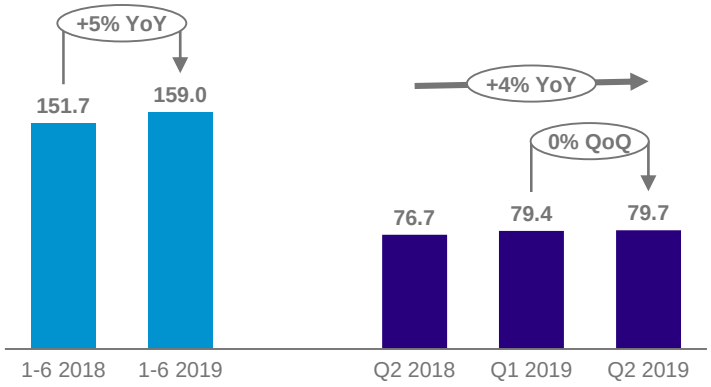
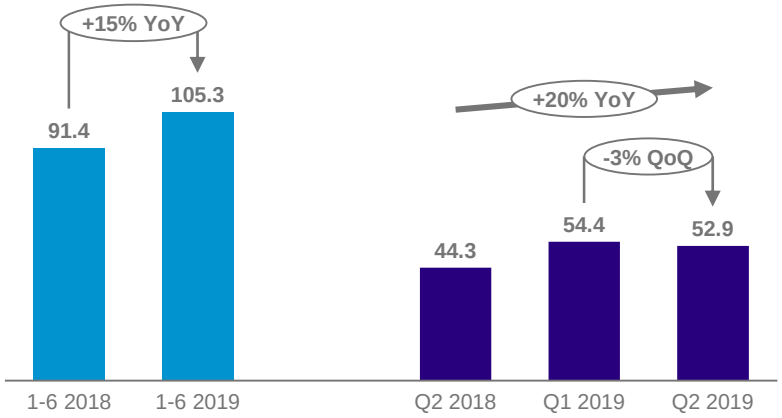
Revenues and Cost Dynamics

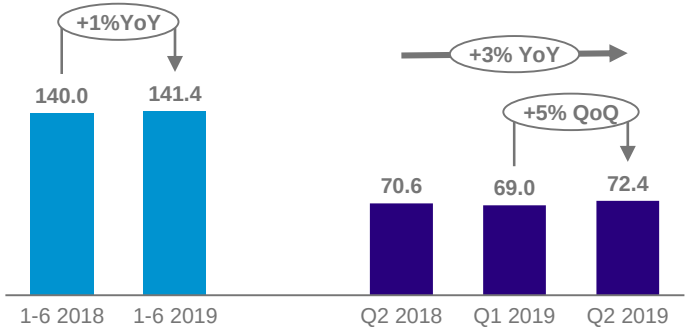
Net interest income (Group, EURm)



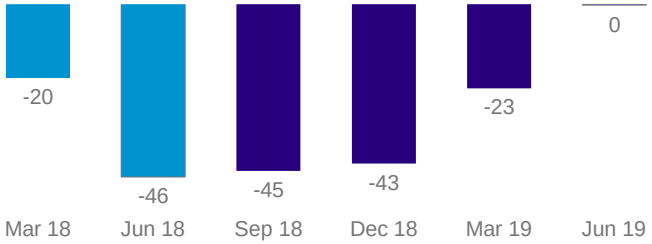
Net non-interest income (Group, EURm)



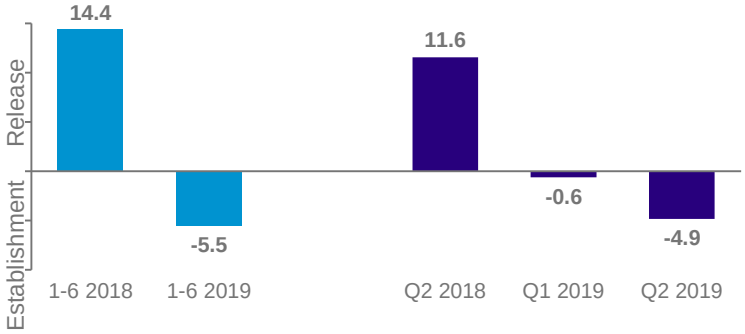
Costs (Group, EURm)



Cost of risk (Group, bps)



Net impairments and provisions (Group, EUR m)



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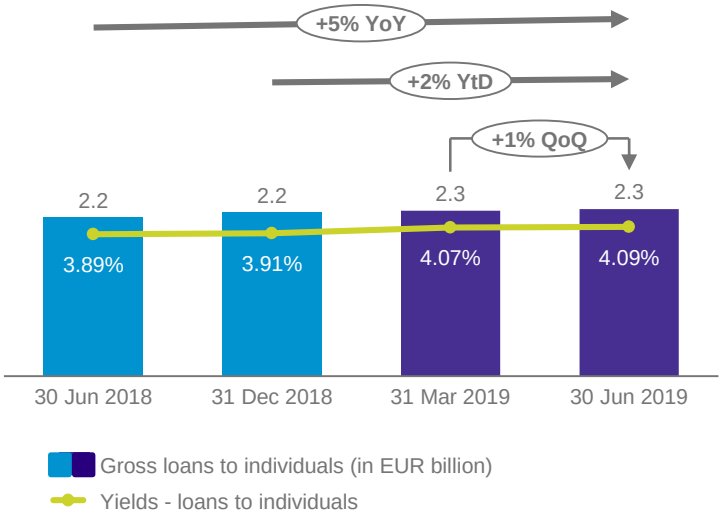
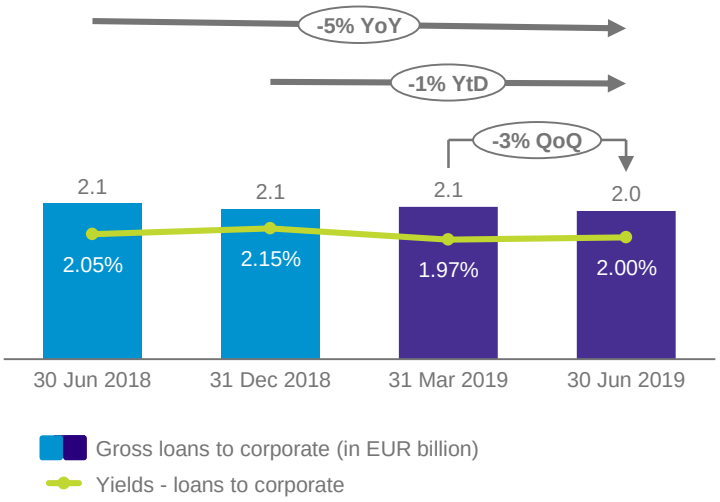
Loan dynamics

NLB d.d.(1)

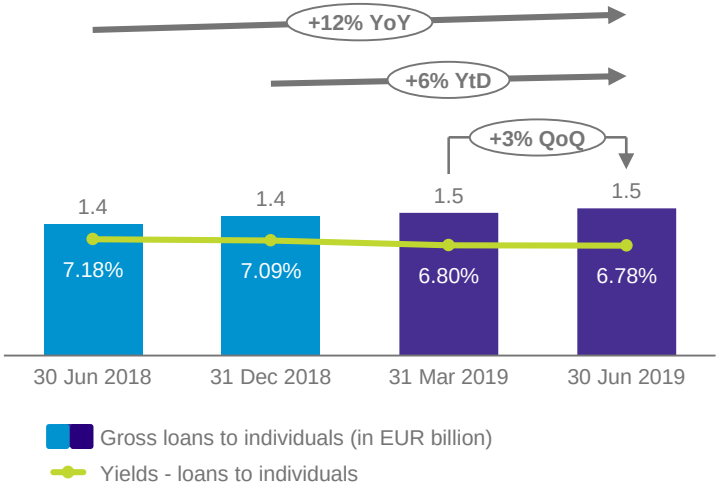
Gross loans to individuals

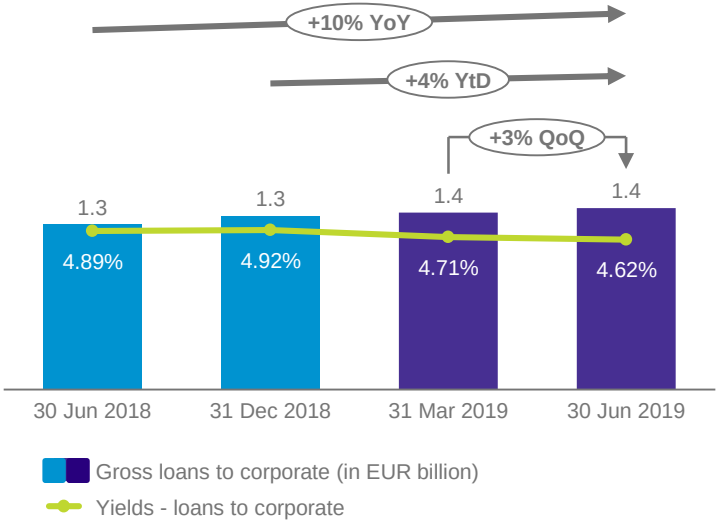


Gross loans to corporate



Strategic foreign markets(2)

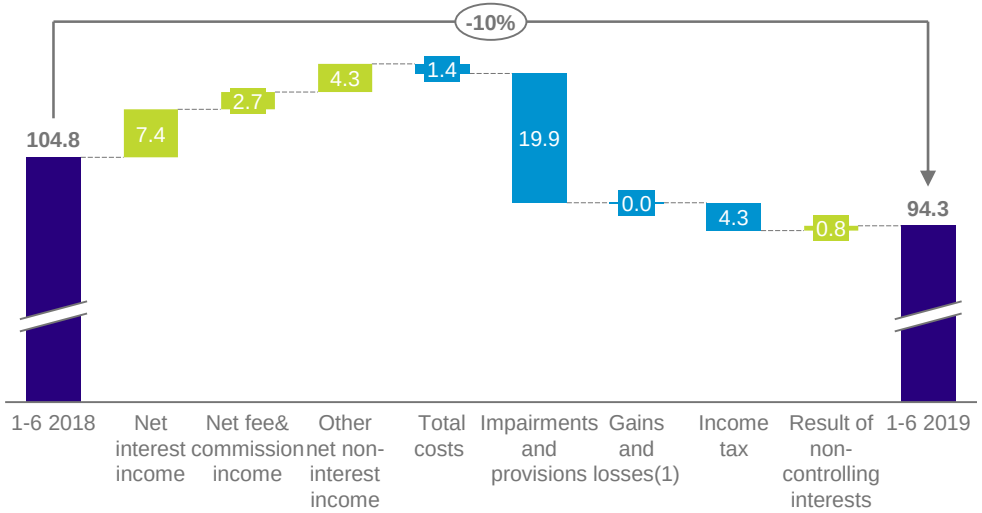




Note: (1) Without funding of subsidiaries; (2) Only banks also before new segmentation from 2019 on.

Income Statement

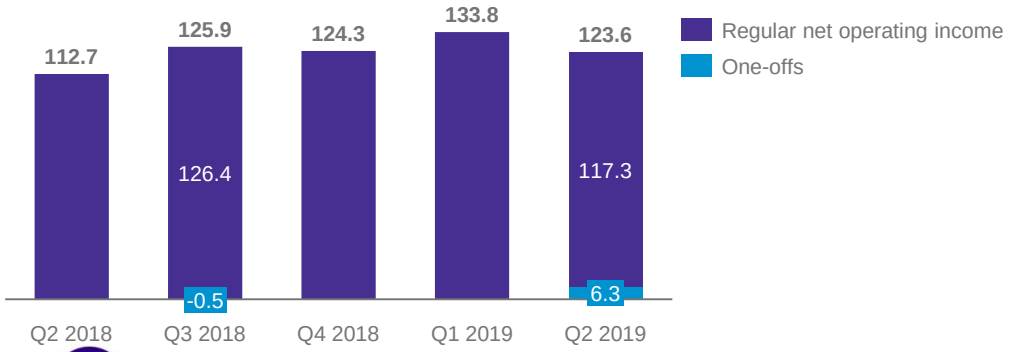
Result after tax of NLB Group – evolution YoY (EURm)



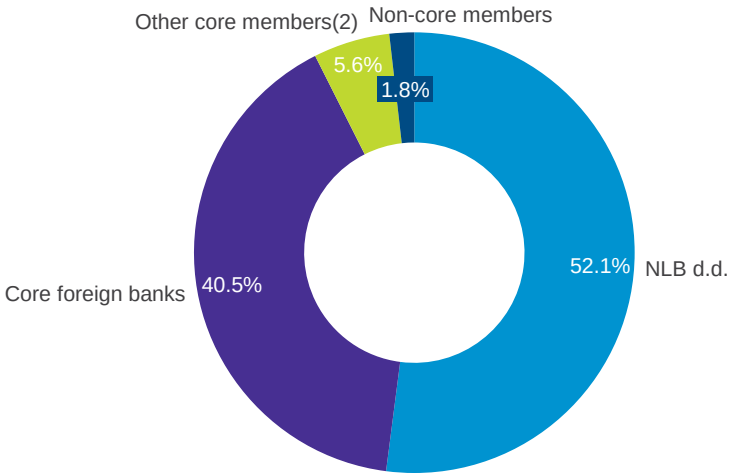
In H1 2019, NLB Group generated **EUR 94.3 million of profit after tax:**

- Higher net interest income, mainly due to loan volume growth and lower interest expenses;
- Higher net fee and commission income;
- Net established provisions and impairments were EUR 5.5 million, while release of EUR 14.4 million net impairments and provisions in the same period of previous year.

Net operating income (Group, EURm)



Contribution to the NLB Group consolidated result a.t.



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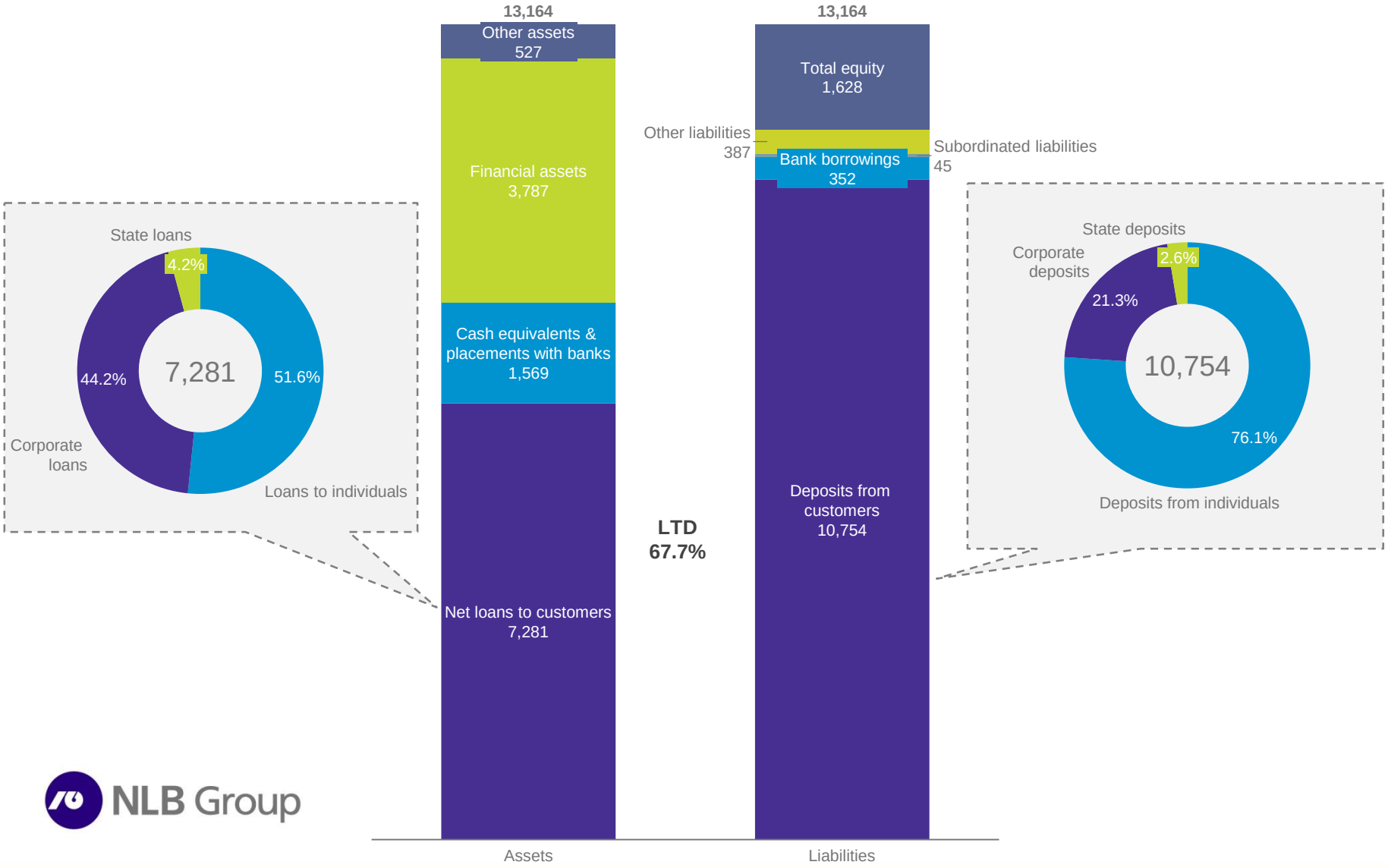
Notes: (1) Gains less losses from capital investments in subsidiaries, associates, and joint ventures. (2) NLB Skladi, NLB Vita and Bankart.

Balance sheet structure – NLB Group

Simple client business driven balance sheet

(30 Jun 2019, in EUR million)



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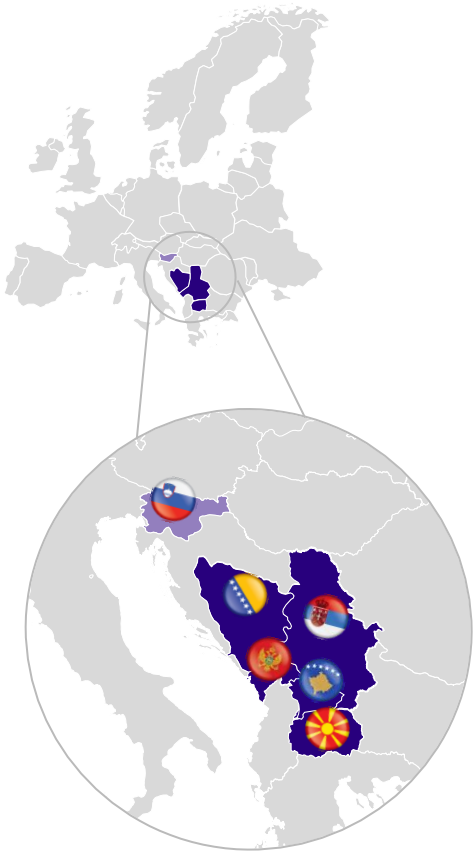
NLB Group – performance indicators across SEE countries



	Slovenia	North Macedonia	Bosnia and Herzegovina		Kosovo	Montenegro	Serbia	NLB Group
	NLB d.d., Ljubljana	*NLB Banka Skopje*	*NLB Banka Banja Luka*	*NLB Banka Sarajevo*	*NLB Banka Prishtina*	*NLB Banka Podgorica*	*NLB Banka Beograd*	
	Data on stand-alone basis							Consolidated data*
Result after tax (EURm)	**122.6**	**14.0**	**9.6**	**5.1**	**9.5**	**2.7**	**1.0**	**94.3**
Total assets (EURm)	9,143	1,363	760	613	711	514	527	13,164
RoE a.t.	18.4%	13.7%	21.9%	12.5%	25.2%	8.0%	2.9%	11.4%
Net interest margin(1)	1.91%	3.74%	2.60%	3.02%	4.45%	4.28%	4.21%	2.54%
Cost/income	40.4%	41.3%	42.4%	52.2%	33.6%	50.5%	86.5%	54.9%
Loans/ Deposits % (net)	61.9	77.7	65.1	80.0	85.5	80.9	98.3	67.7
NPL ratio	5.1%	5.2%	2.6%	5.4%	2.1%	4.9%	2.3%	6.0%
NLB ownership (%)	/	86.97%	99.85%	97.34%	81.21%	99.83%	99.99%(6)	/
No. of branches (#)	93	53	55	38	35	18	28	320
Market(2) **share %**	22.8%	16.0%	18.8%(3)	5.2%(4, 5)	17.3%	11.9%	1.6%	/

Note: Financial data as of June 2019.
**Consolidated data. Including non-core members and other activities and other core members.*
(1)Calculated on the basis of interest bearing assets; (2) Market share based on total assets; (3) Market share in the Republika Srpska; (4) Market share in the Federation of BiH; (5) Market share as of 31 Mar 2019; (6) NLB ownership is 99.9975%.

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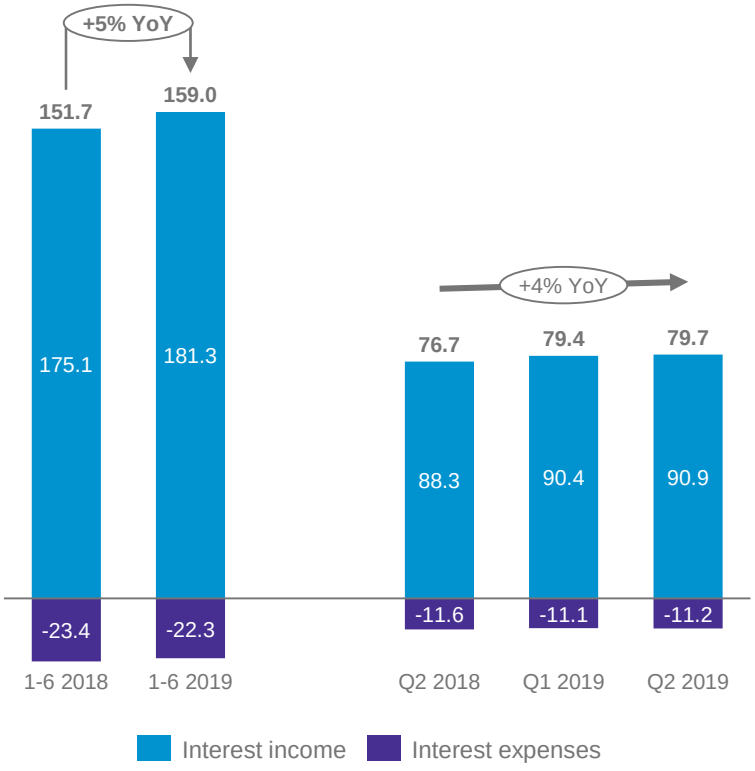
Business Performance

NLB Group

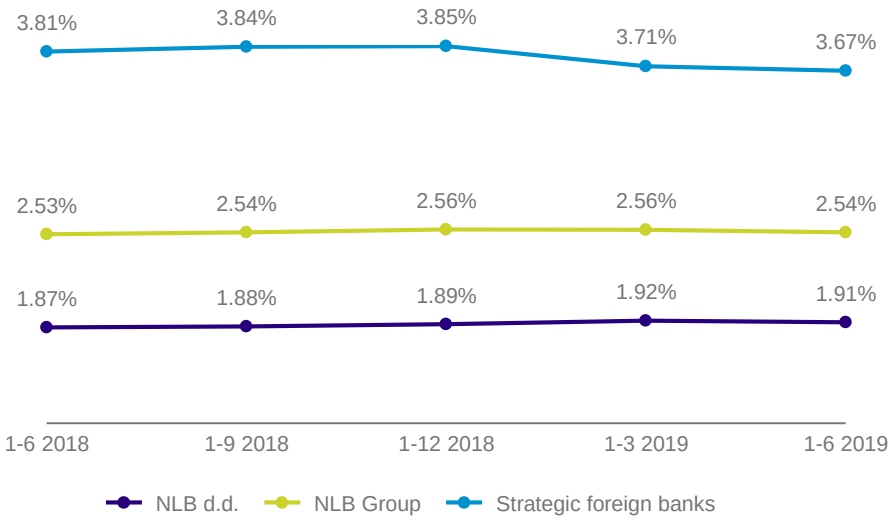
Net interest income & net interest margin

Net interest income increased YoY but remains under pressure

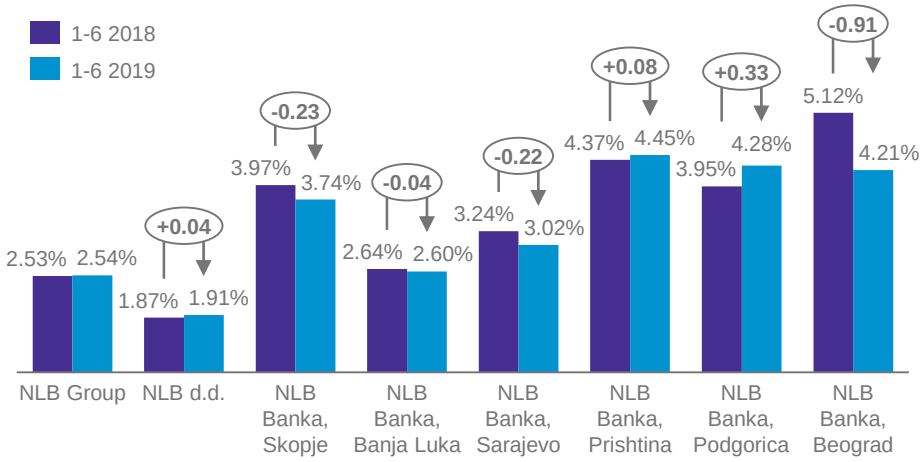
Solid interest income growth YoY



Stable net interest margin[1] (Group, %)



Net interest margin[1] in NLB Group banks (in %)



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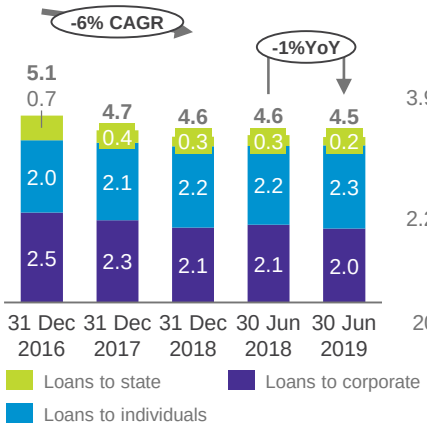
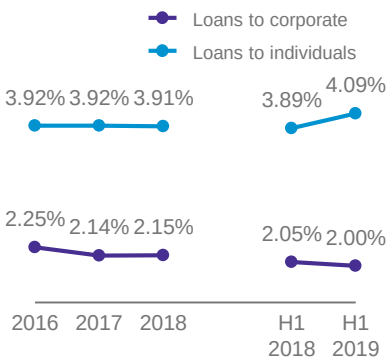
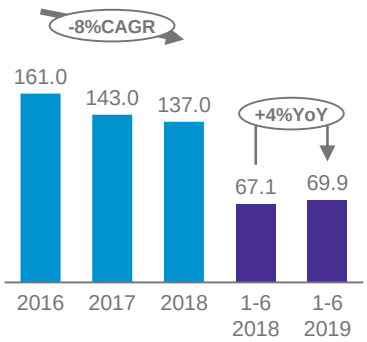
Source: Company information
Note: (1) Calculated on the basis of interest bearing assets; Interest margins for the Group and Strategic foreign banks for 2018 are adjusted to the new methodology valid from May 2019 (calculation daily averages).

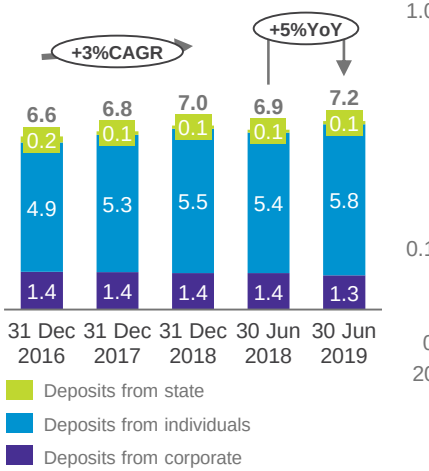
Net interest income drivers – NLB d.d.

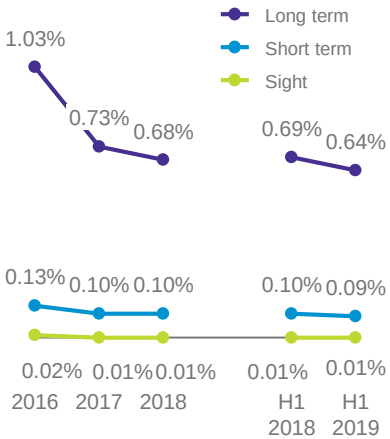
	Drivers	Volume (in EUR billion)	Yields and rates	Interest income / expenses (in EUR million)
Interest income[1]	• NLB d.d.'s loan book volume is on a decreasing trend. • The structure is changing in favor of retail loans with higher interest rates which is reflected in higher interest income in H1 2019 compared to H1 2018.	Gross loans	Loan yields	Interest income from loans
Interest expenses	• Inflow of deposits. • Deposit structure is changing from maturity point of view, with cheaper sight deposit prevailing in the structure. • Decrease in interest expenses due to decrease in average deposit rate.	Deposits	Deposit rates	Interest expenses from deposits

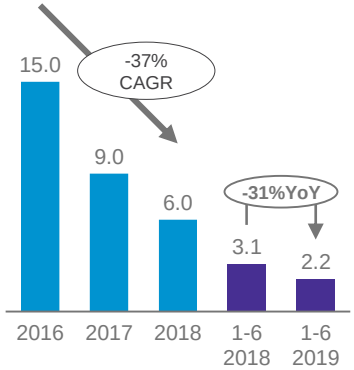












	2016	2017	2018	1-6 2018	1-6 2019
Net interest income[2]	175	159	158	77	80
NIM[3]	2.0%	1.9%	1.9%	1.9%	1.9%

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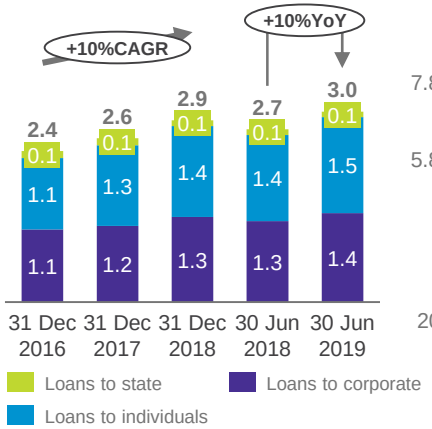
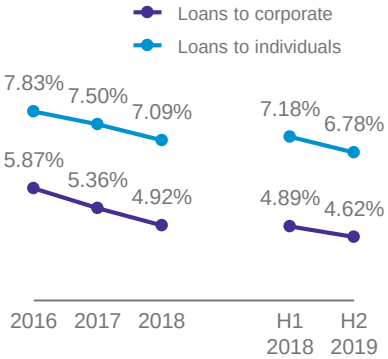
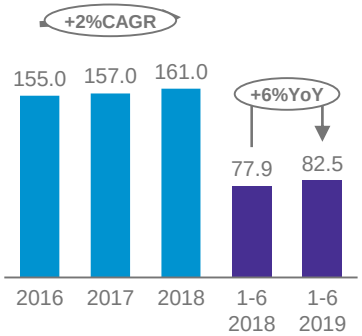
Note: (1) Without funding of subsidiaries; (2) Includes also other items from presented interest income from loans and interest expense from deposits; (3) Calculated on the basis of interest bearing assets.

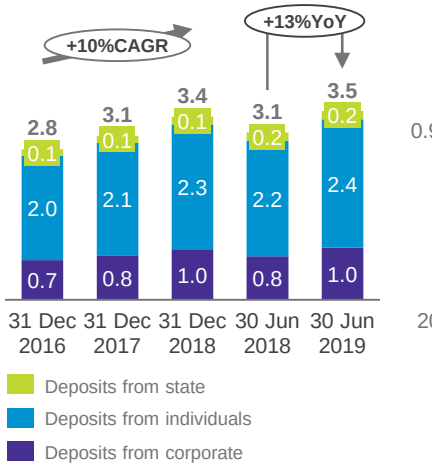
Net interest income drivers – Strategic foreign markets[1]

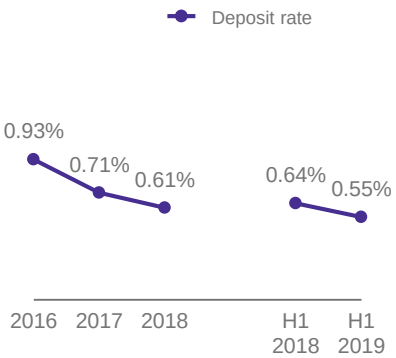
	Drivers	Volume (in EUR billion)	Yields and rates	Interest income / expenses (in EUR million)
Interest income	• Expected macro-economic growth to provide further upside. • Increasing interest income despite decreasing loan yields.	Gross loans	Loan yields	Interest income from loans
Interest expenses	• Deposit structure shift towards cheaper sight deposits. • Decrease in interest expenses due to decrease in deposit rates.	Deposits	Deposit rates	Interest expenses from deposits

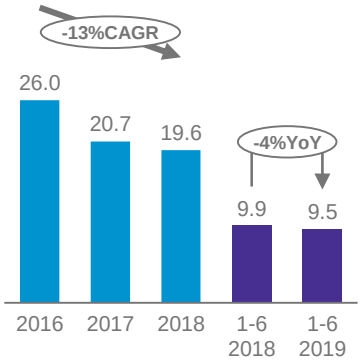












NLB Group

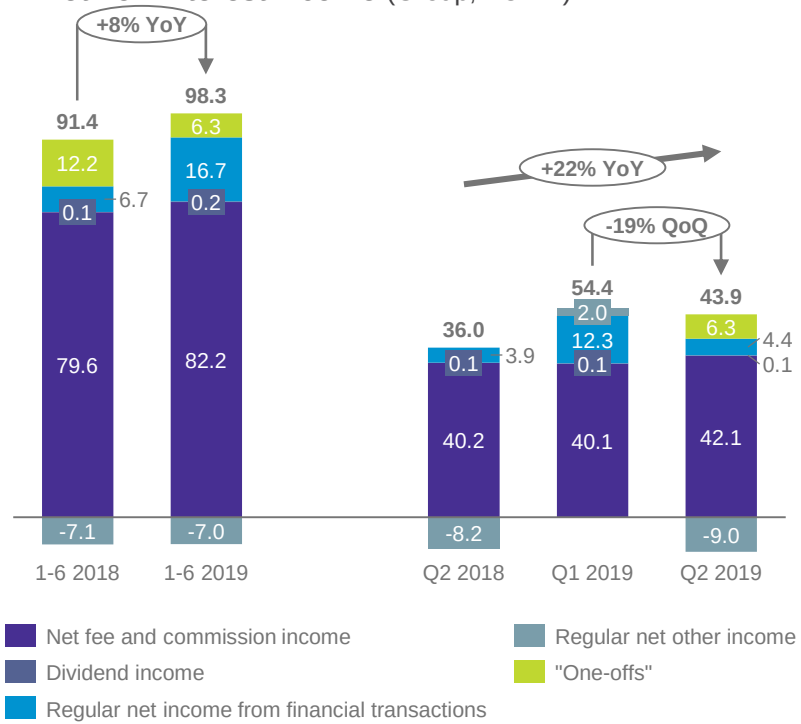
	2016	2017	2018	1-6 2018	1-6 2019
Net interest income[2]	137	145	151	72	78
NIM[3]	4.0%	4.0%	3.8%	3.8%	3.7%

Note: (1) Only banks also before new segmentation from 2019 on; (2) Includes also other items from presented interest income from loans and interest expense from deposits; (3) Calculated on the basis of interest bearing assets.

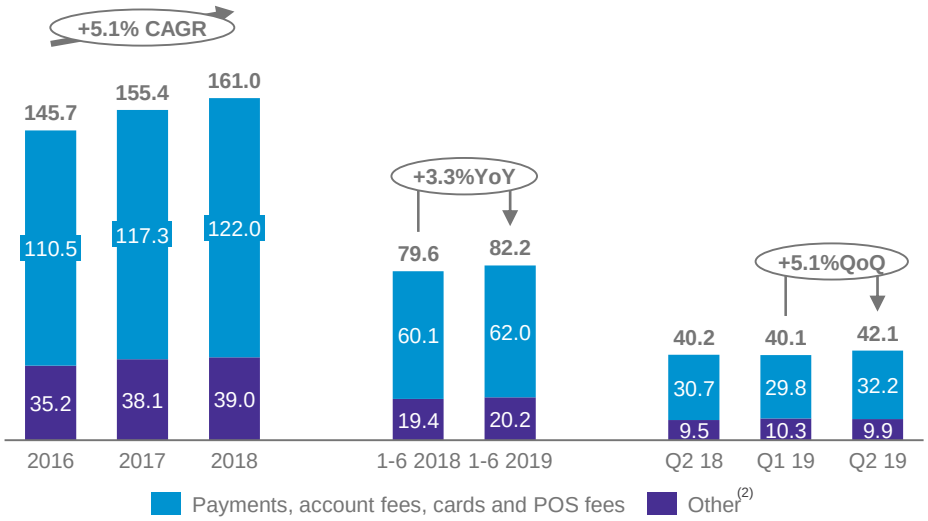
Net non-interest income – NLB Group

Good performance in Fee and Commissions

Net non-interest income (Group, EURm)[1]



Net fee and commission income growing YoY (Group, EURm)



in EUR million	1-6 2019	1-6 2018	Change YoY	
Regular net other income	**-7.0**	**-7.1**	**0.1**	**2%**
DGS	-9.4	-9.7	0.3	3%
SRF	-2.0	-2.5	0.5	18%
External realisation NLB (IT, vault)	2.0	2.2	-0.2	-11%
Rents	2.8	3.6	-0.8	-21%
Valuation of investment property	-0.1	0.0	-0.1	-
Other	-0.2	-0.7	0.5	72%

Net non-interest income totaling EUR 98.3 million increased by EUR 7.0 million or 8% YoY, due to the following factors:

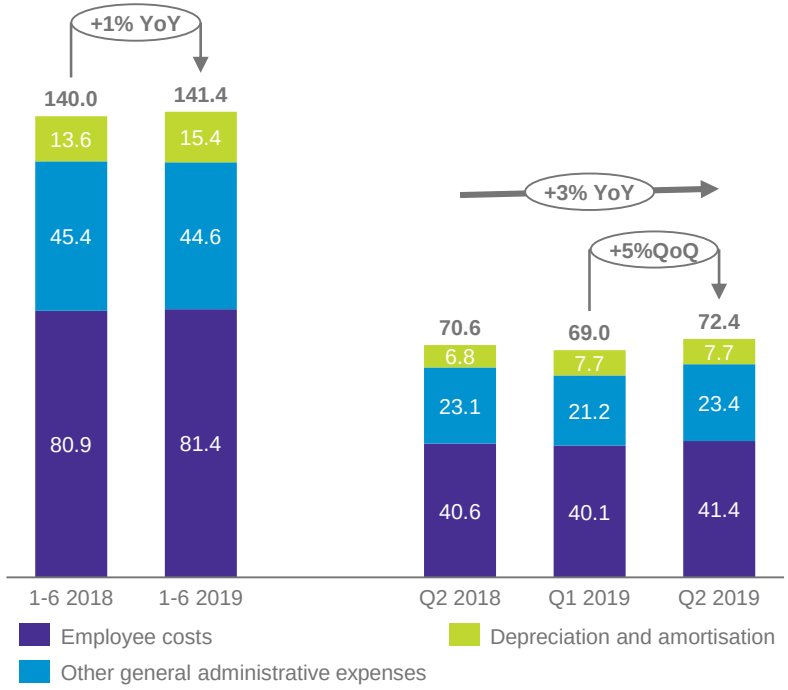
- Higher net fee and commission income by EUR 2.7 million or 3% YoY mostly as a result of increased fee and commission income in Retail segment in Slovenia and Strategic foreign markets.
- In H1 2019 positive one-off effects from revaluation of a non-core equity stake was realized in the amount of EUR 6.3 million; whereas in H1 2018, the net non-interest income was positively impacted by the sale of NLB Nov penziski fond, Skopje in the amount of EUR 12.2 million.
- In H1 2019, the net non-interest income was positive impacted by non-recurring income as a partial repayment of a larger exposure measured at fair value through profit and loss in the amount of EUR 5.1 million, and active management of banking book securities in the amount of EUR 3.0 million.
- Regular net other income was affected by the regulatory costs (SRF & DGS) in the total amount of EUR 11.5 million, which were by EUR 0.7 million or 6% lower YoY.

Note: (1) From June 2019 on different presentation of non-recurring items is in use. (2) Includes investment funds, guarantees, investment banking, insurance products and other services.

Costs – NLB Group

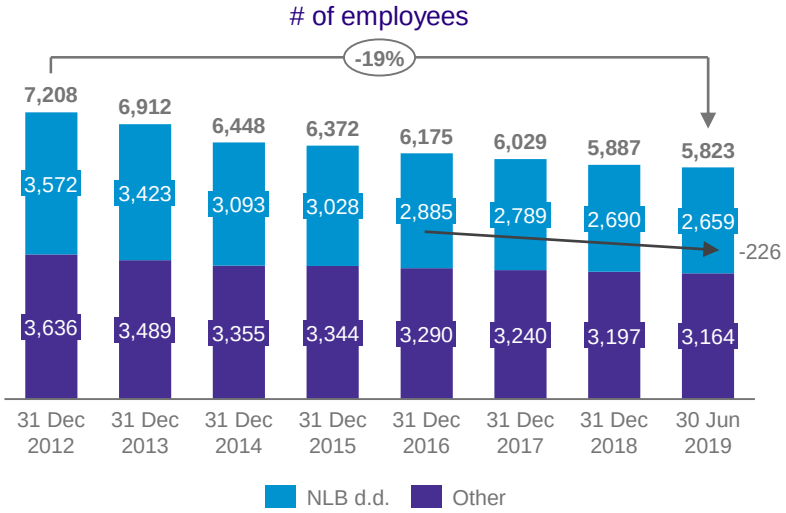
Cost higher by 1% YoY

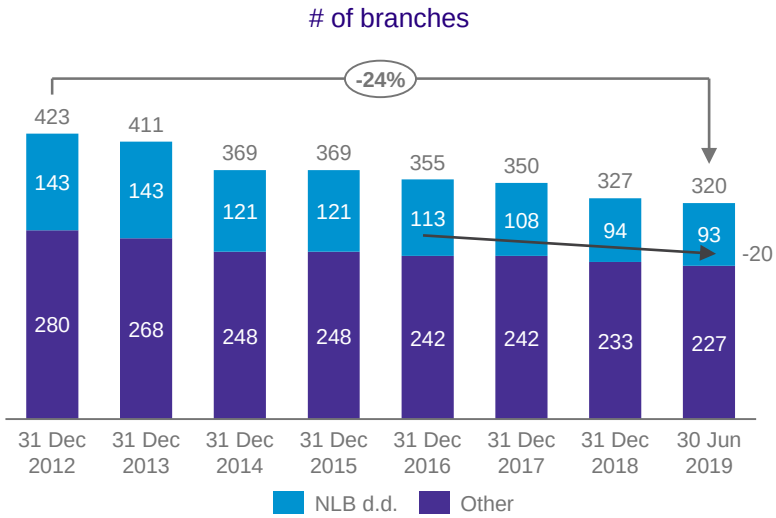
Operating expenses (Group, EURm)



- EUR 1.4 million increase in total costs mostly due to higher technology costs (EUR 1.9 million).
- CIR stood at 54.9%.
- Headcount dropped by 19% over 2012-30 June 2019 driven primarily by Slovenia core & non-core members.
- Ongoing closures of unprofitable branches.

Employees and branches evolution – stronger rationalisation in tougher Slovenia market (#)



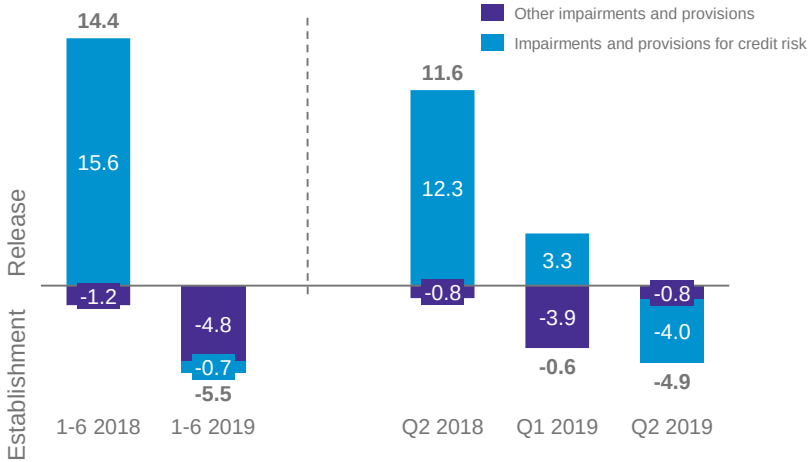


NLB Group

Impairments and provisions & cost of risk

Cost of risk close to 0

Impairments and provisions (Group, EUR m)

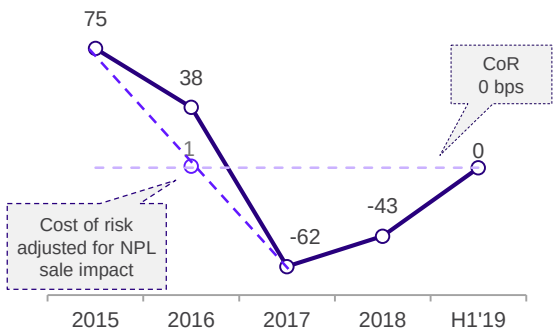


In H1 2019, the Group established EUR 5.5 million of **net impairments and provisions** while in the same period of previous year the Group released EUR 14.4 million net impairments and provisions.

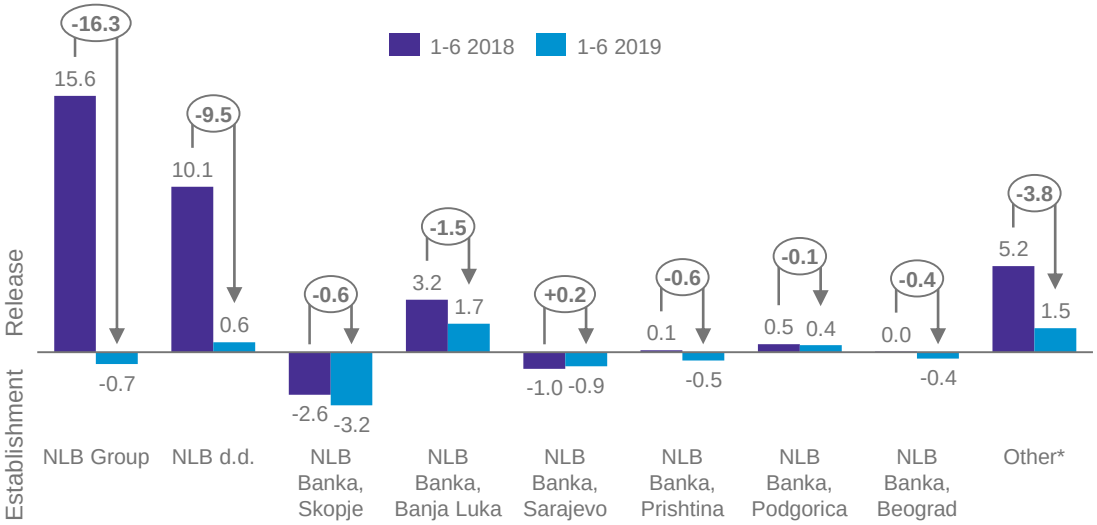
Impairments and provisions for credit risk were net established in the amount of EUR 0.7 million and the cost of risk in H1 2019 was close to 0.

Other impairments and provisions were established in the net amount of EUR 4.8 million of which EUR 2.7 million due to established provisions for pending legal disputes in NLB Banka, Podgorica.

Cost of risk (Group, bps)



Impairments and provisions for credit risk – contribution (EURm)



*Other includes: NLB Srbija, NLB Crna gora, Leasing companies, LHB Frankfurt and NLB InterFinanz

NLB Group

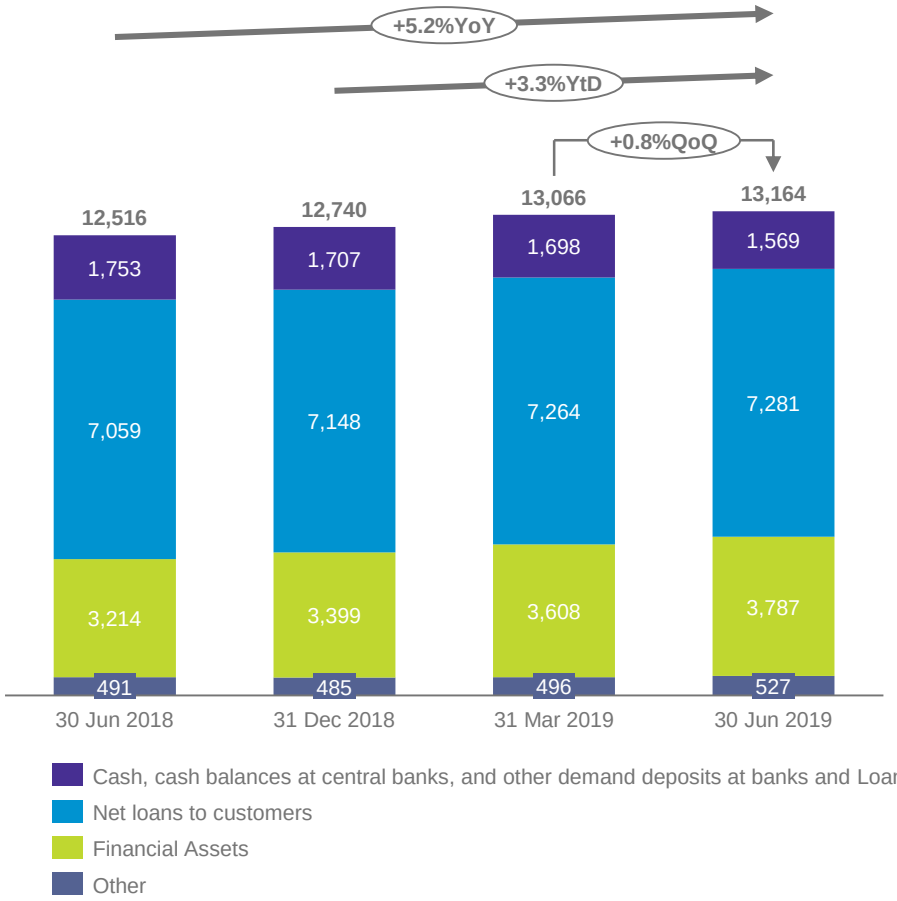
Assets and Liabilities

NLB Group

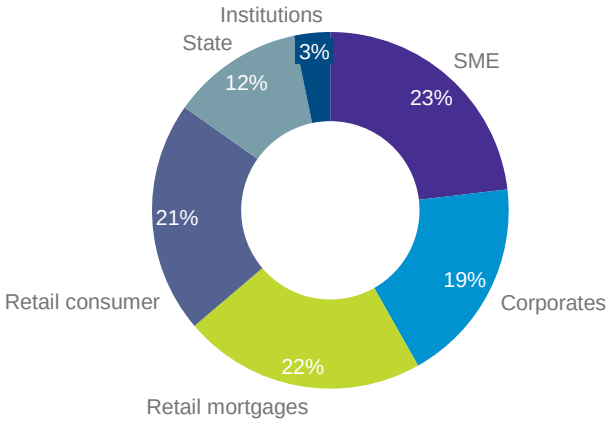
NLB Group Assets

Well diversified loan book, strong liquidity position

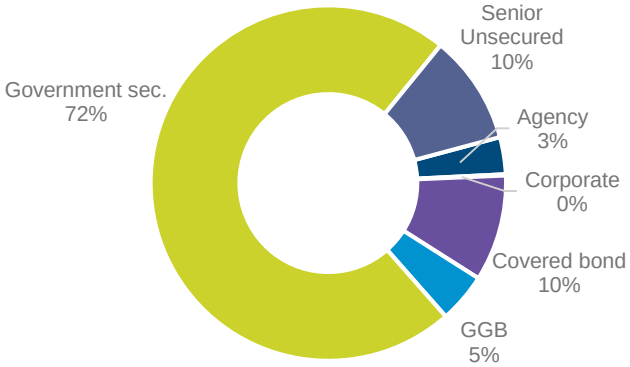
Total assets of NLB Group – structure (EURm)



Credit portfolio by segment (Group, 30 Jun 2019)



Banking book portfolio by asset class (Group, 30 Jun 2019)

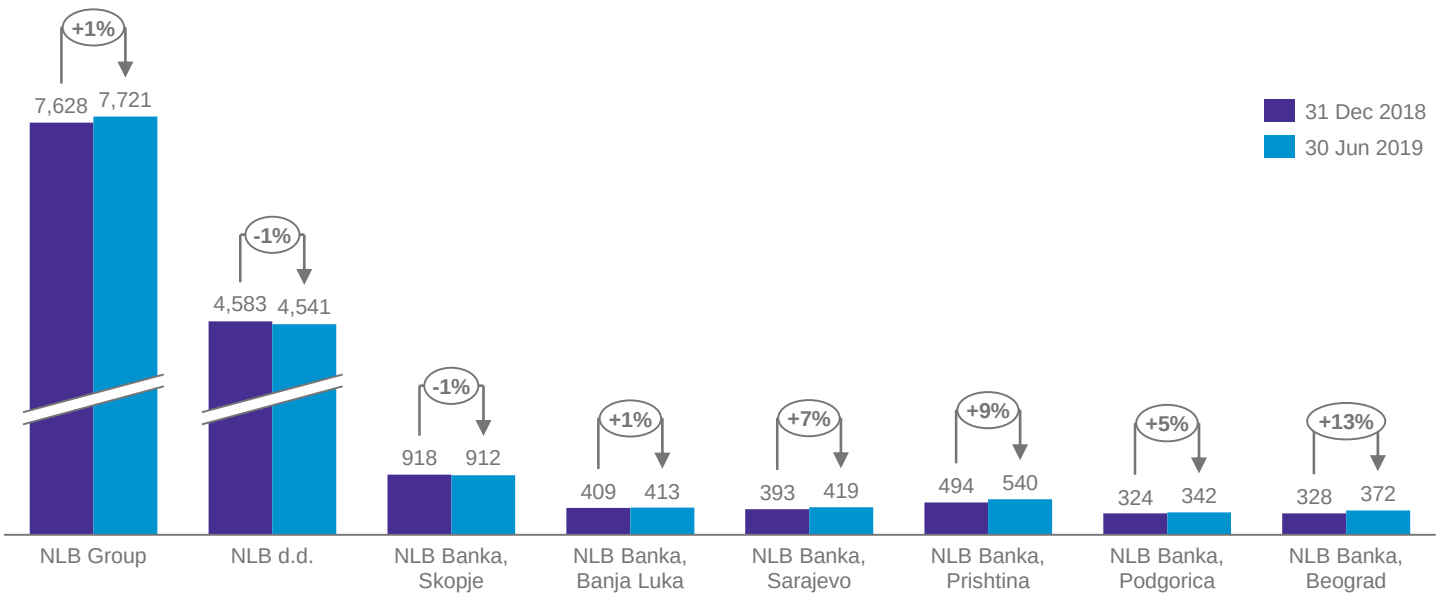


NLB Group

NLB Group Assets – Loan portfolio

Balanced loan portfolio with loan growth in most of banks

Gross loans to customers by strategic member – contribution (EURm)



Gross loan growth in most subsidiaries banks, especially in NLB Banka, Prishtina, NLB Banka, Beograd, NLB Banka, Sarajevo and NLB Banka, Podgorica.

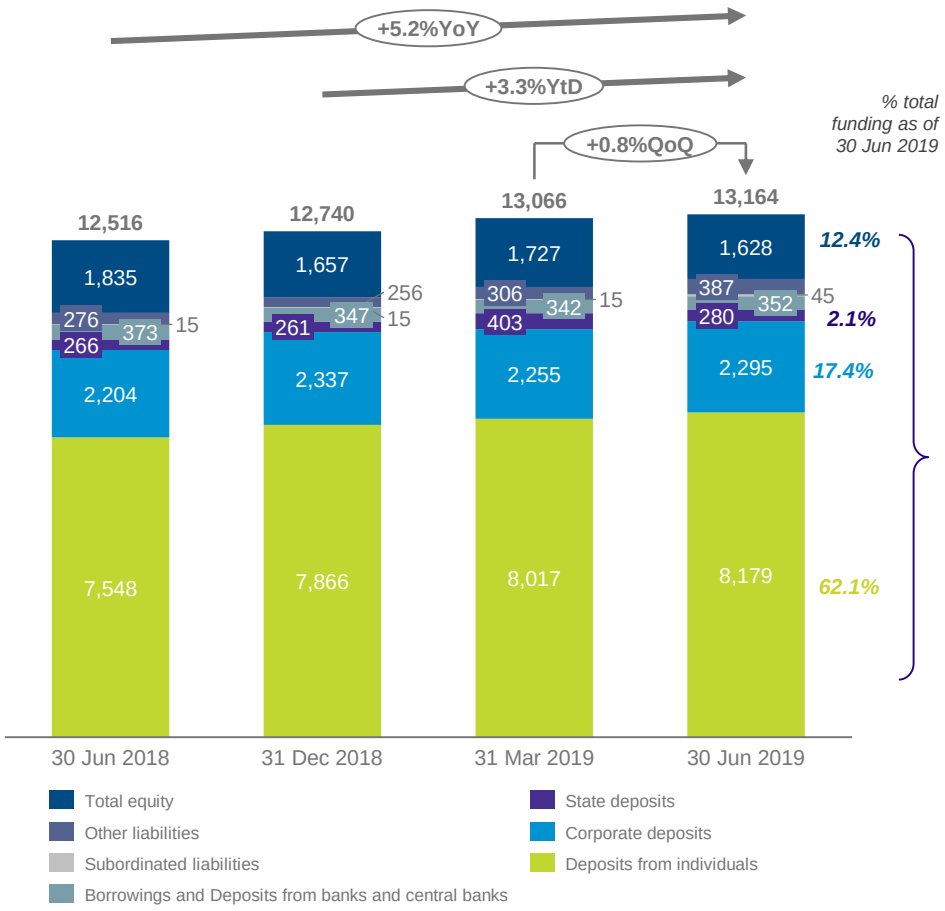
Gross loans to individuals in subsidiary banks grew by 5.6% and to corporate by 4.2% YtD.

NLB Group

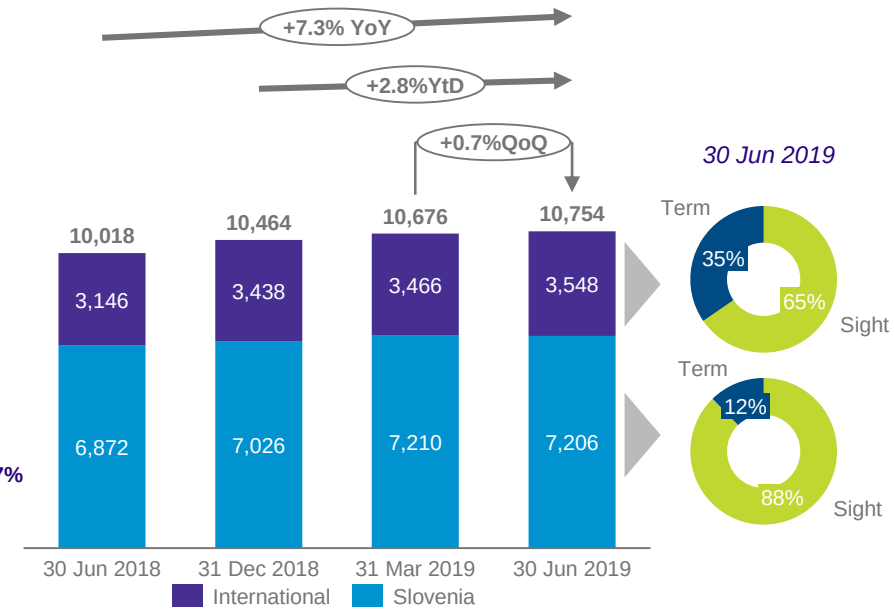
NLB Group Liabilities and Equity

Funding structure driven by stable and price insensitive deposit base

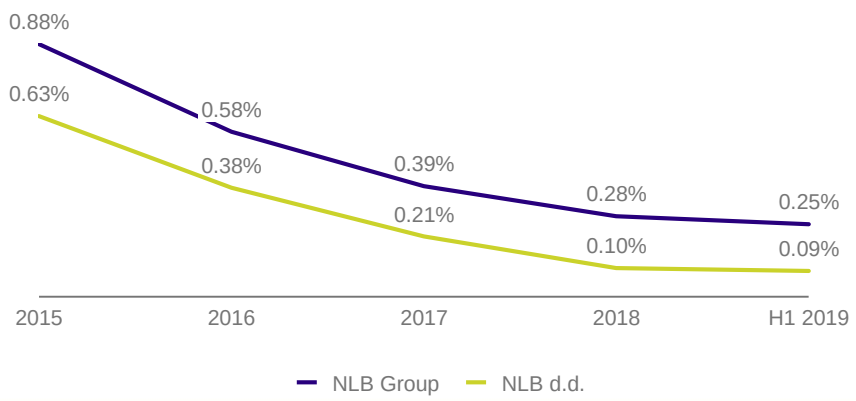
Deposits accounting for 82% of funding (Group, EURm)



Deposit split (Group, EURm)



Decreasing average cost of funding (%)

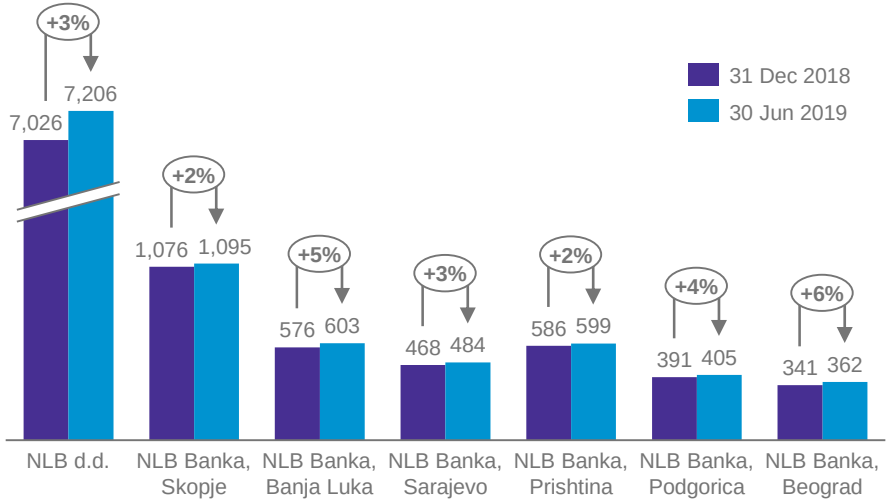


- Primarily deposit funded
- Due to low interest rates, sight deposits prevailing

NLB Group Liabilities

Deposit growth; interest rates decreasing

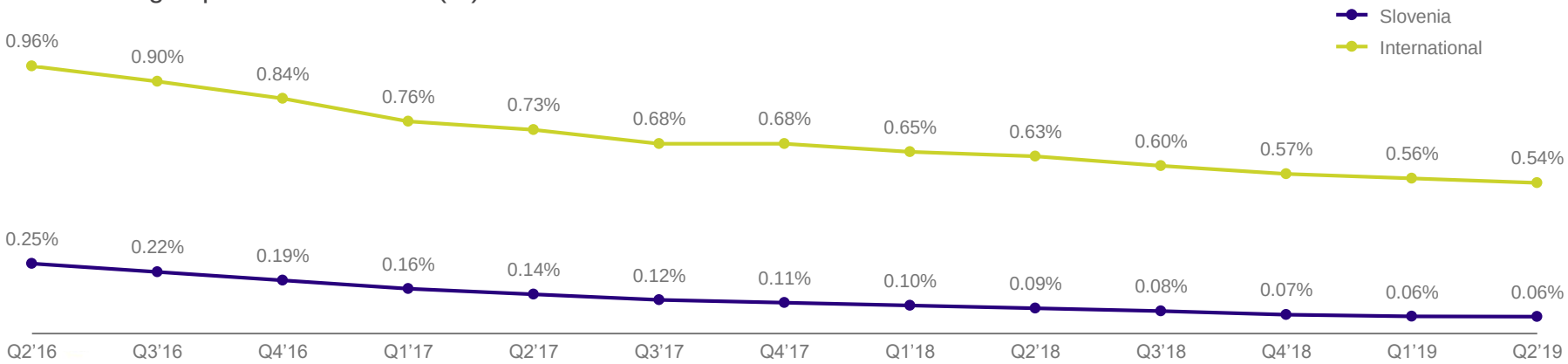
Deposits from customers by strategic member – contribution (EURm)



Deposit growth across all markets, despite low interest rate environment.

NLB d.d. charges minimum 0.03% monthly **fee on deposits volume** (threshold from January 2019 at EUR 100k) to corporate deposits and account balances.

Decreasing deposit interest rates (%)*

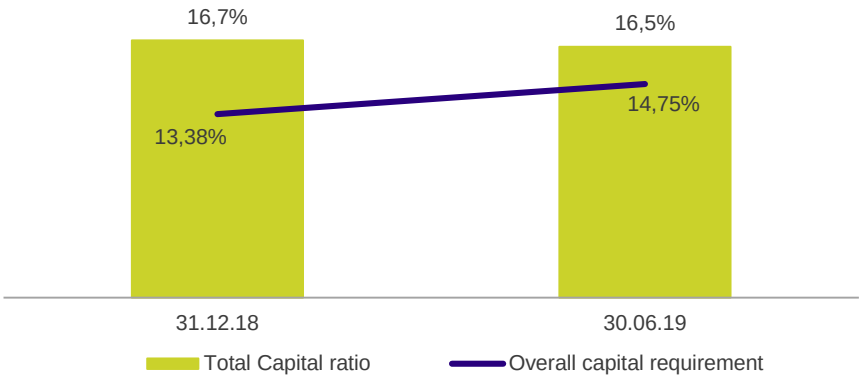


*Quarterly data for the stock of deposits from customers

Capital - NLB Group

Total capital slightly up YtD

NLB Group capital ratios (%)

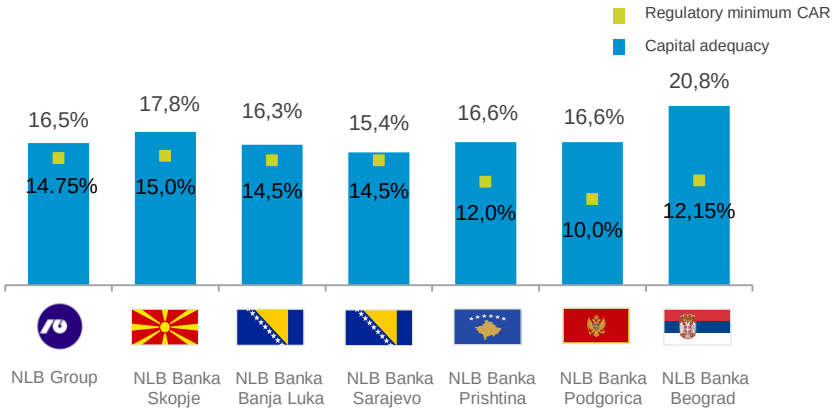


Capital structure and ratios

(in EUR million)	NLB Group 30.6.2019	31.12.2018 o	Change YtD	
Common Equity Tier 1 capital	**1.425,3**	**1.453,4**	**-28,1**	**-1,9%**
Additional Tier 1 capital	0,0	0,0	0,0	
Tier 1 capital	**1.425,3**	**1.453,4**	**-28,1**	**-1,9%**
Tier 2 capital	**44,6**	**0,0**	**44,6**	
Total capital	**1.469,9**	**1.453,4**	**16,5**	**1,1%**
Total risk exposure amount (RWA)	**8.935,2**	**8.677,6**	**257,6**	**3,0%**
Common Equity Tier 1 Ratio	**16,0%**	16,7%	-0,7 p.p.	
Tier 1 Ratio	**16,0%**	16,7%	-0,7 p.p.	
Total Capital Ratio	**16,5%**	16,7%	-0,2 p.p.	

- At the end of June 2019, the **Total capital ratio** for NLB Group stood at 16.5% (or 0.2 p.p. lower YtD), and for NLB at 22.7% (1.4 p.p. lower YtD).
- In June 2019, NLB paid out dividends in total amount of EUR 142.6 million, which represents EUR 7.13 gross per share. This decreased capital for EUR -43.2 million, nevertheless, the Total capital in 2019 increased by EUR 16.5 million, mainly due to issuance of a Tier 2 instrument (EUR 44.6 million), higher Other Comprehensive Income (EUR 13.8 million) and lower deduction for Intangible assets (EUR 1.5 million).

Capital adequacy and local requirements (30 Jun 2019, %)

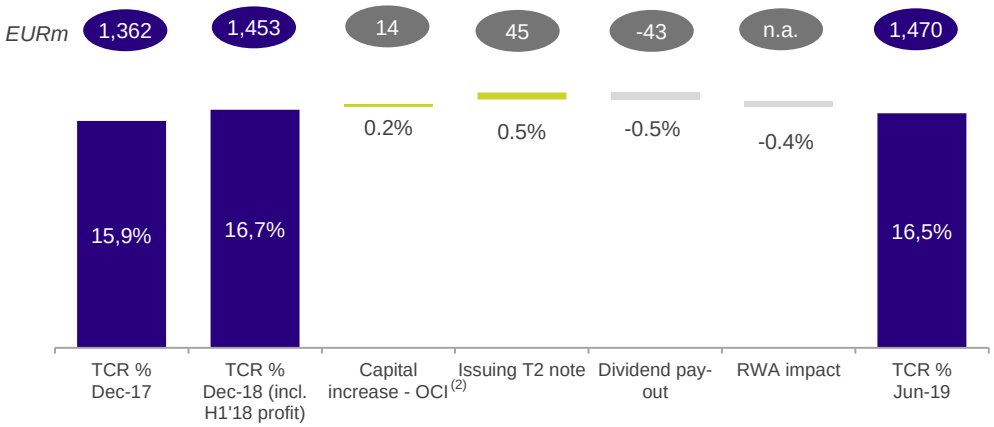


NLB Group

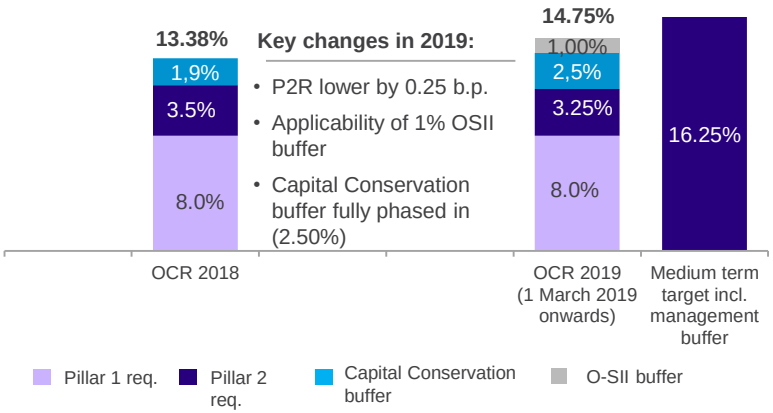
Capital evolution and requirements

Strong capital position

Capital position (Group, EURm)



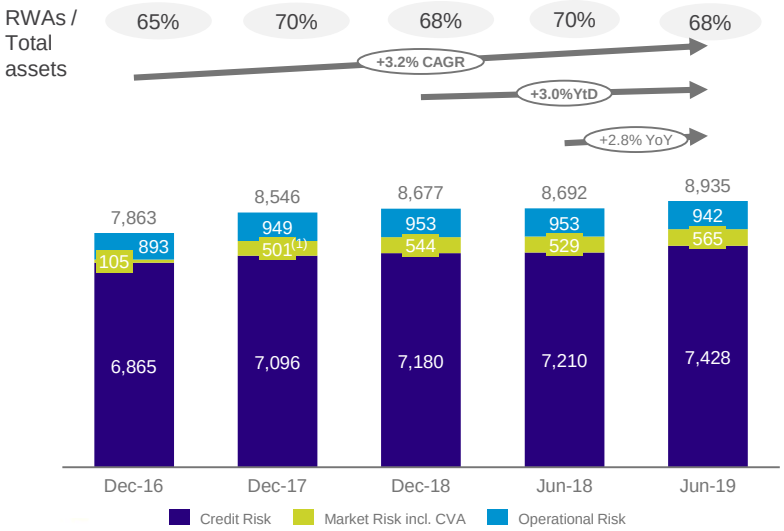
Structure of the Overall Capital Requirement (OCR)



Key changes in 2019:

- P2R lower by 0.25 b.p.
- Applicability of 1% OSII buffer
- Capital Conservation buffer fully phased in (2.50%)

RWA structure (EURm)



- **Total capital ratio** reaching 16.5% on Group level in Jun-19.
- As from 1 March 2019, **Pillar 2 Requirement (P2R) is lowered by 0.25 p.p.** (to 3.25%) as a result of better overall SREP assessment. **Comfortable buffers** against 2019 regulatory requirements of 14.75% OCR.
- NLB medium term target set at 16.25% total capital ratio; to be regularly revised by competent bodies to reflect each time applicable capital requirements.
- NLB issued a **Tier 2 instrument** in the amount of **EUR 45 million** as part of EC commitments, thereby also exerting its capital optimisation potential.

Note: (1) Increase of RWA for market risk since December 2016 is a result of inclusion of FX structural position of SEE subsidiaries; (2) OCI – Other Comprehensive Income

Solid dividend distribution

(NLB d.d., EURm)

	2015	2016	2017	2018
NLB d.d. profit	44	64	189	165
o/w dividends from subsidiaries, associates and joint ventures to NLB d.d.	14	29	58	50
NLB Group profit after tax	92	110	225	204
NLB Group dividend to shareholder (paid in year after)	44	64	271	142.6
Implied payout ratio (%)	**48%**	**58%**	**84%[1]**	**70%**

- The payment of dividends by NLB, will depend on a number of factors, including NLB's capital structure, risk appetite, profits, financial condition, regulatory requirements, general economic and business conditions, and future prospects.
- The Bank targets the payment of dividend in the amount of approximately **70%** of its consolidated profit, subject to the decision by the Bank's General Assembly.

NLB Group

Note: (1) 2017 payout (84%) calculated based on 2017 profit.Total dividend paid for 2017 amounted to EUR 270.6 million (EUR 189.1 million of profit for 2017 and EUR 81.5 million of retained profit from previous years) i.e. dividend payout 120%.

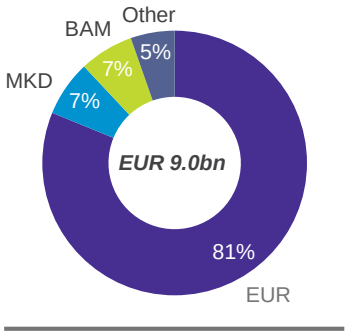
Asset Quality

NLB Group

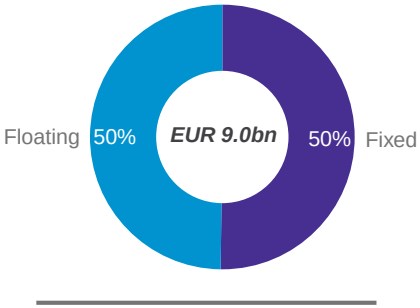
Asset quality – NLB Group

Diversified credit portfolio, focused on core markets and cautious risk taking

Credit portfolio[1] by currency and rate type (Group, Jun 2019)

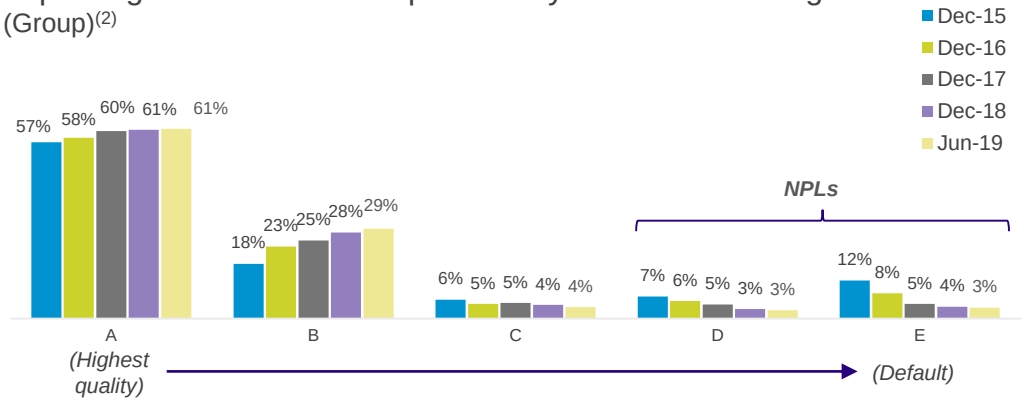


Currency



Interest rate

Improving structure of credit portfolio by client credit ratings (Group)[2]



- **No large concentration** in any specific industry or client segment
- **Lending strategy** focuses primarily on its core markets of retail, SME and selected corporate business activities
- Great emphasis is also placed on **further improvement of credit portfolio**
  - Intensive and proactive handling of problematic customers
  - Cautious lending policy
  - Early warning system for detecting increased credit risk
- The Group is **actively present** on the market, financing existing and new creditworthy clients.

NLB Group

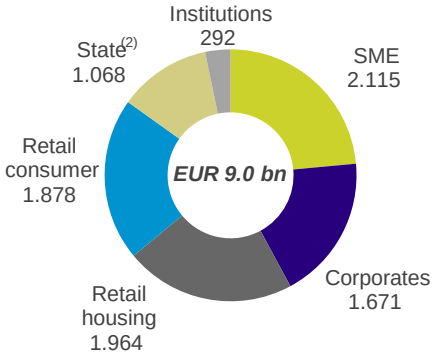
Source: Company information

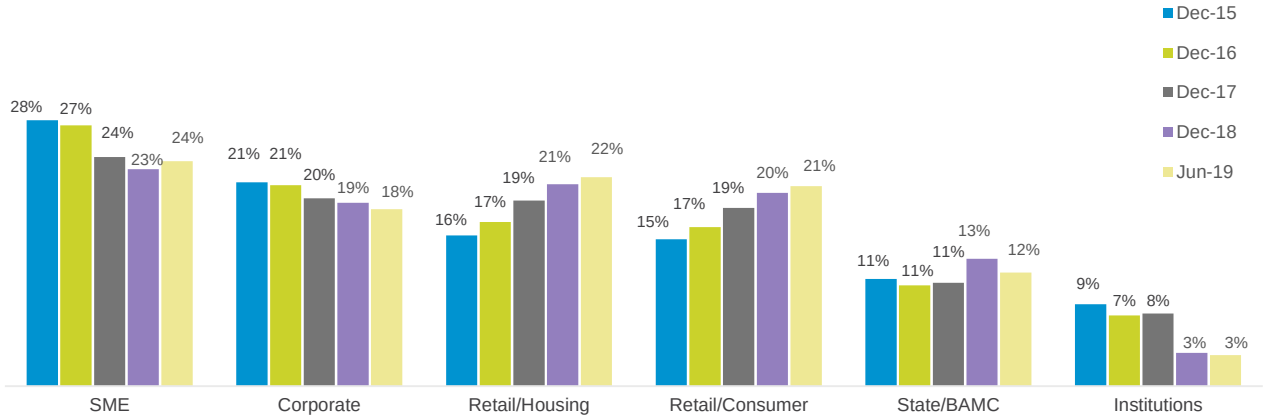
Note: (1) Credit portfolio also includes advances to banks and central banks; (2) Rating A, B and C are performing exposures. Rating A: investment grade clients with high financial stability; Rating B: clients with high ability to repay their obligations, a significant aggravation of the economic environment would cause problems to them; Rating C: performing clients with increased level of risk who may encounter problems with settlement of liabilities in the future; Ration D and E are NPLs: Default clients (article 178 of CRR), including clients in delay >90days and other clients considered 'unlikely to pay' with delays below 90 days. Numbers may not add up to 100% due to rounding.

Asset quality – NLB Group

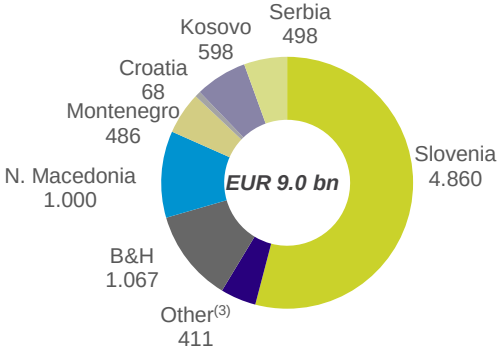
Diversified credit portfolio, focused on core markets and cautious risk taking

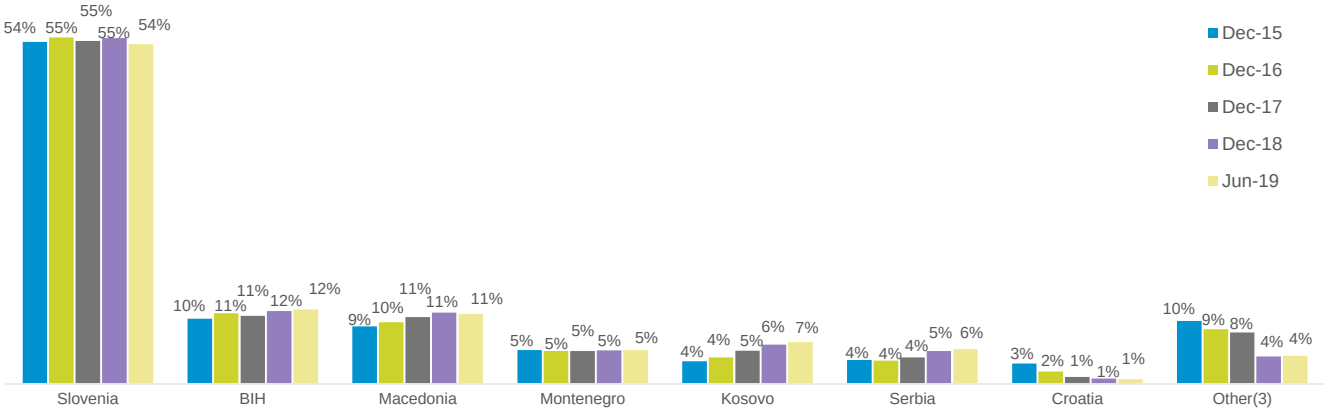
Credit portfolio[1] by segment (Group, Jun 2019, EURm)





Credit portfolio[1] by geography (Group, Jun 2019, EURm)





NLB Group

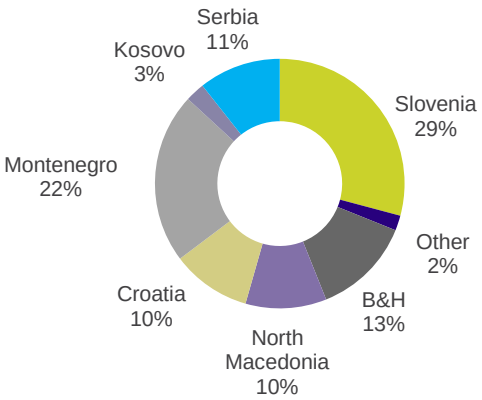
Source: Company information

Note: (1) Credit portfolio also includes advances to banks and central banks; (2) State includes exposures to central banks; (3) The largest part represent EU members.

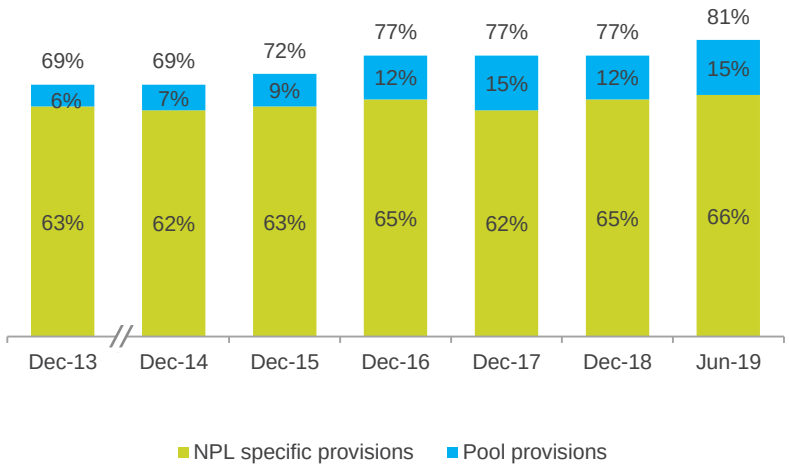
Asset quality – NLB Group

NPLs fully covered by provisions and collateral

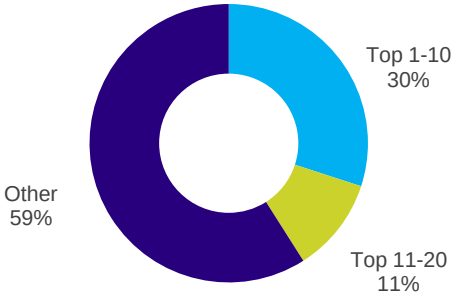
NPL by geography (Group, Jun 2019)



NPL cash coverage[1] (Group, %)



Top 20 NPLs (Group, Jun 2019)



An important Group strength is the NPL cash coverage (CR1), which remains high at 81%. Further, the Group's NPL coverage ratio 2 stands at 66 %, which is well above the EU average as published by the EBA.

As such, it enables a further reduction in NPLs without any material losses..

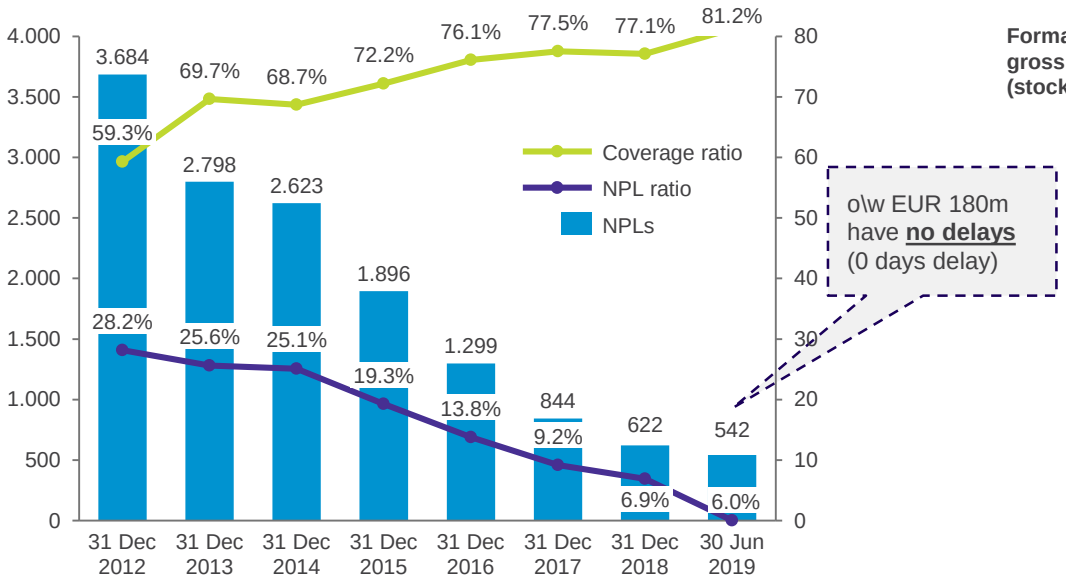
NLB Group

Source: Company information
Note: (1) Cash coverage calculated including both individual and pool provisions.

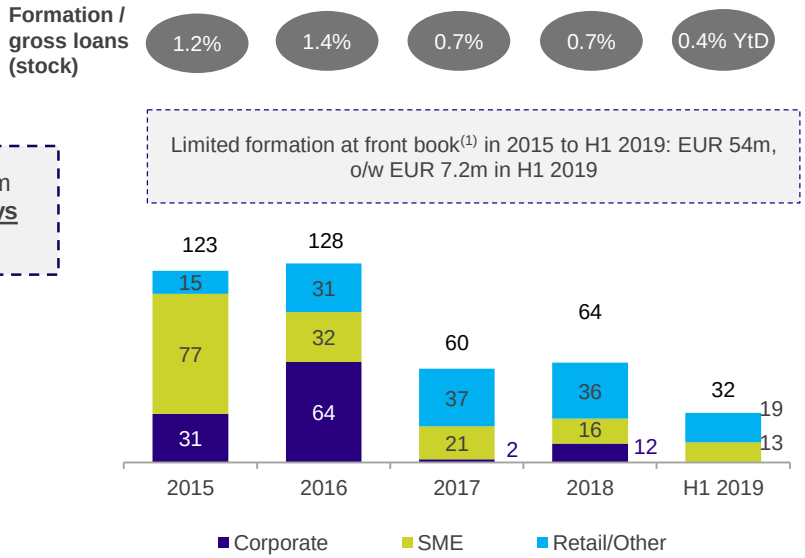
Asset quality – NLB Group

New NPL formation very low, successfull legacy resolution

Active workout drove **gross NPL ratio** down
(Group, EURm)



Gross NPL formation has been low since 2015
(Group, EURm)



Low NPL in **Retail** segment throughout the economic cycle.

In **Corporate** segment a considerable reduction of NPL is observed in industries with the highest NPL %.

Top 10 NPL represent 30% of the entire NPL volume; the coverage with provisions remains high, limiting the potential losses.

NPL ratio decreased from 6.9% to 6.0% YtD, while **NPE ratio** reduced by 0.6 p.p. YtD to 4.1%.

NLB Group

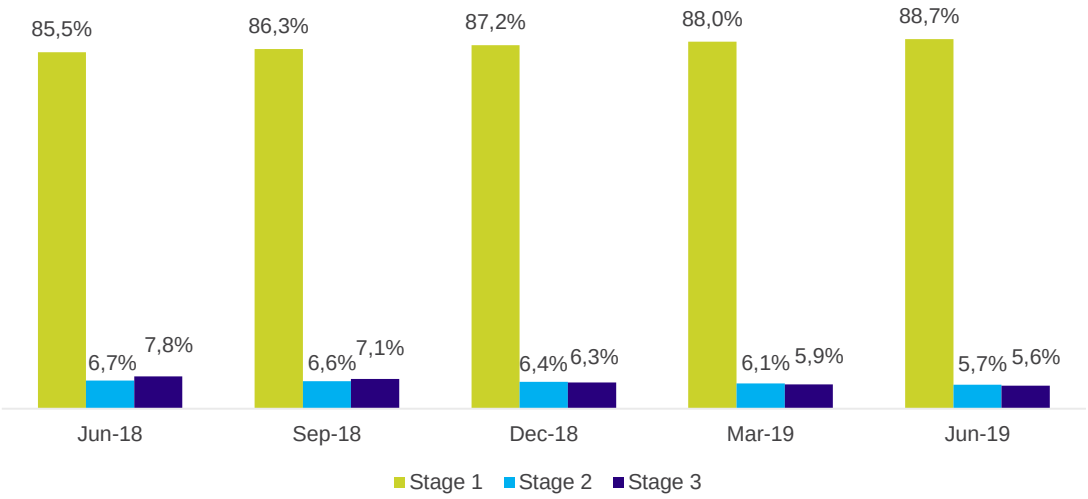
Source: Company information

Note: NPL was defined until December 2014 as loan exposure to D and E clients/claims and delays over 90 days from loans to A, B and C classified clients. Since customers with loans (in arrears over) with 90 days past due should be classified in non-performing grade (D or E), NPL definition changed and from 31.12.2014 include only D and E exposures; NPLs, NPL ratio and NPL cash coverage based on Credit portfolio;
(1) Refers to corporate loans issued since 2014 and retail loans issued since 2015.

Asset quality – NLB Group

High % of Stage 1 Loan portfolio (Valued at amortized cost)

Stage portfolio at amortized costs
(Group, Jun-19)



Stage 1 loans represent 89% of loan portfolio valued at amortized cost.

Due to NPL reduction Strategy the share of **Stage 3** loans is decreasing.

Share of **Stage 2** loans is reducing as well.

NLB Group

Strategy & IT

NLB Group

Track record of innovation

The pioneer of banking innovation in Slovenia

- First Slovenian bank to launch **contactless ATMs**
- First Slovenian bank to launch **chat and video call** functionalities
- Only bank with **multichannel 24/7 support** (through phone, chat and video call)
- Only bank with **fully mobile express loan capabilities** (Consumer & SME)
- First Slovenian bank to offer **card management** functionalities in **mobile wallet**
- **Top-ranked financial apps** on App Store and Google Play

NLB SLOVENIJA

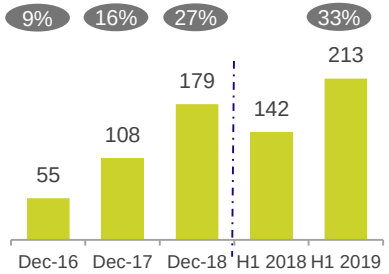
Google Play 4,5 ★★★★½

App Store 4,8 ★★★★★

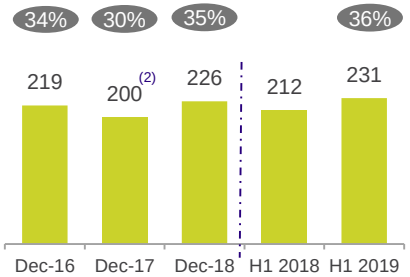
NLB Group

Demonstrated success in moving to digital

Mobile bank users[1] ('000s)

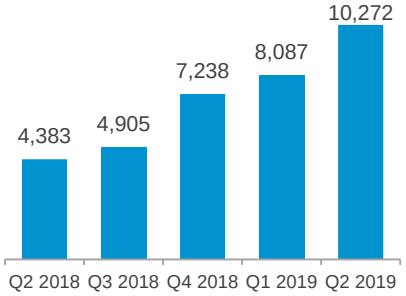


Online bank users[1] ('000s)

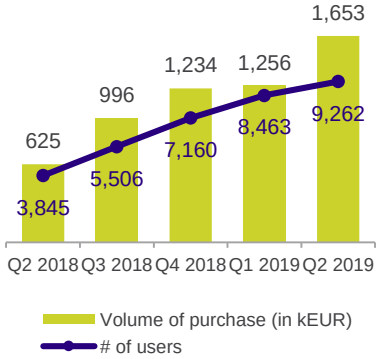


% Penetration of client base

Use of video call functionality (# of contacts)



Mobile wallet users & transactions



Note: All figures are for Slovenia
(1) Individual users (Klikin and NLB Klik); (2) In 2017 ~30,000 inactive NLB Klik users systematically removed.

Clear strategy to address current challenges

Key challenges

Sector and regulation	Macro	Clients	Technology
• Regulatory interventions • Further complexity of new regulations (MREL, Basel IV) • Market consolidation	• Low interest rate environment • Potential political and geopolitical risks • Potential economic slowdown	• More demanding and knowledgeable clients • Preference for digital channels	• Competition from fintechs • Enhanced customer insights through data management • Impact of social media

Strategic priorities

Innovative focus on customer experience

- ✓ Omni-channel product distribution
- ✓ Partnership programmes
- ✓ End-to-end customer solutions

Enhanced distribution

- ✓ Migration to digital channels
- ✓ Sales process optimisation
- ✓ Improved value-creating customer insights

Cost containment – Simplicity champion

- ✓ Optimal operations and workforce („Lean initiative“)
- ✓ Effective procurement at group level
- ✓ Investment in IT transformation and shared services

Improved risk management

- ✓ Optimised risk processes
- ✓ Improved risk modelling
- ✓ Streamlined risk governance

Optimised product offering

- ✓ Pricing optimisation
- ✓ Simplified product offering
- ✓ Further focus on fee-based & advisory products

Regional specialist

- ✓ Exclusive strategic interest in and unique understanding of the region
- ✓ Consistent strategy across markets

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Source: Company information

Medium-term objectives in IT and Digital

Leverage digital and data to enhance our business model

Strategic objectives		Strategic initiatives	
Improve customer insight	✓ Data collection ✓ Data extrapolation ✓ Advanced analytics	1 Data insights	✓ Risk scoring models ✓ Behavioral models to inform individualized customer offers ✓ Support of automated decisions
Enhance customer experience	✓ Increase customer satisfaction ✓ Create new business opportunities	2 Omni-channel	✓ Upgrading digital channels to support full customer journeys ✓ Migration of customers to new digital channels
Increase innovation capacity	✓ Agile development ✓ Pull ideas driven by customer demands ✓ Empowering employees	3 Innovative solutions	✓ Idea management implementation ✓ Deploying partnerships to explore new concepts ✓ Open eco-system to become solution
Optimise operations	✓ Full (paperless) digitalization of processes ✓ Increased process automation ✓ Reduction in cost-to-serve ✓ Concentration on value adding activities (advisory, sales)	4 Simplification	✓ Process and product simplification to support digital delivery ✓ Simplified IT enabling digitalization

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NLB Group synergy opportunities

Group synergies are being addressed in all functional areas

IT competence center

- Established predominantly for subsidiary banks, but will increasingly service also the parent company
- Core banking maintenance and development operating since the beginning of 2018
- Expansion in 2019 to provide additional support:
  - ESB roll-out in
  - Solution for loan origination and approval process roll-out
  - Digital Banking Platform roll-out
  - ETL's and data modelling in EDWH

Process (System) competences

- Loan origination and approval process mapping and standard regional process definition for all 6 subsidiary banks was successfully completed. An RFP to purchase a standard platform is to be launched soon
- Analysis of potential synergies in SWIFT is under way
- Introduction of RPA in 2 banks in the Group

IT regionalisation activities

- Regional SIEM(1) and SOC(2) successfully set up by the parent bank in Ljubljana
- Implementation of a modern data management platform is progressing according to the project plan
- Implementation of selected functionalities of the Digital Banking Platform is in preparatory phase
- Activities to achieve regional synergies in selected IT areas have started

Procurement

- Upgraded regional standards in procurement were aligned across the region and are being finalized
- Non-FTE cost optimisation project achieved targeted savings 6 months before its conclusion
- Central sourcing in strategic sourcing categories is in place

By actively working on Group synergies, NLB Group leverages on costs (scale), speed of implementation and knowledge sharing

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Note: (1) Security information and event management
(2) Security operations center

Outlook

NLB Group

Outlook 2019

Macro outlook & risk factors affecting the business outlook

- ✓ Real GDP growth: most countries are likely to **grow at around 3% - 4%** if supported by loose monetary conditions, fiscal easing and solid domestic demand
- ✓ Public debt in all markets **below EU average**
- ✓ **Low** household indebtedness and **solid** savings performance

- ? Economies will be sensitive to a **potential slowdown in the Eurozone**
- ? **Worsened** interest rate outlook
- ? **Regulatory & tax** measures impacting banks
- ? **Geopolitical** uncertainties

Business outlook

ASSUMPTIONS:

- Single digit increase of revenues and pre-provision income
- Continued net loan growth in line with GDP dynamics and **stable NIM**
- **Increase** of cost of risk, however remaining at low levels
- Costs are expected to moderately increase in short-term period. However, the commitment to cost containment remains strong and the Bank continues to pursue a strong cost agenda

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Appendixes

Appendix 1: Segment Analysis 36

Appendix 2: Macro Overview 55

Appendix 3: EC committments 69

Appendix 4: Financial statements 71

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Appendix 1

Segment Analysis

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NLB Group business segments

	Retail banking in Slovenia	Corporate and investment banking in Slovenia	Strategic foreign markets	Financial markets in Slovenia	Non-core members
	Retail **NLB Skladi** **NLB Vita[1]** **Bankart[2]**	**Key corporates** **SME corporates** **Investment banking and custody** **Restructuring and workout**	**NLB Banka, Skopje** **NLB Banka, Banja Luka** **NLB Banka, Sarajevo** **NLB Banka, Prishtina** **NLB Banka, Podgorica** **NLB Banka, Beograd**	**Treasury activities** **Trading in financial instruments** **Asset and liabilities management (ALM)**	**Non-core members according to EC commitments** **REAM entities** **NLB Srbija** **NLB Crna Gora**
	• Largest retail banking group in Slovenia by loans, deposits and number of branches • #1 in private banking and asset management • Focused on upgrading customer digital experience and satisfaction	• Market leader in corporate banking with focus on advisory and long-term strategic partnerships • Market leader in Investment Banking and Custody services • Regional know-how and experience in Corporate Finance and #1 lead organiser for syndicated loans in Slovenia • Strong trade finance operations and other fee-based business • Market leader at FX and interest rate hedges	• Leading SEE franchise with 6 independent, well capitalised and largely self-funded subsidiaries • The only international banking group with exclusive focus on the SEE region	• Maintaining stable funding base • Management of well diversified liquidity reserves • Managing interest rate positions with responsive pricing policy	• Assets booked non-core subsidiaries funded via NLB d.d. • Controlled wind-down of remaining assets, including collection of claims, liquidation of subsidiaries and sale of assets
(Jun 2019, in EUR million)					
Profit b.t.	24.9	26.2	43.4	13.4	0.4
Total assets	2,463	1,950	4,405	3,912	206
% of total assets[3]	19%	15%	33%	30%	2%
CIR	69.5%	47.2%	50.2%	20.4%	110.3%
Cost of risk (bp)	8	-12	10	/	-130

Notes: (1) 50% equity stake, under equity consolidation; (2) 39% minority stake; (3) Other activities 1%.

Estimated effects of segments metodology changes

From 2019, some shifts in reporting of business segments have been applied, following the completion of the restructuring process imposed by the EC and also reflecting strategic streamlining of business operations within the corporate segment as follows:

- Results from Investment Banking and Custody Services have been transferred from Financial Markets in Slovenia to an enlarged Corporate and Investment Banking in Slovenia.
- Micro clients in Slovenia have been transferred from Corporate and Investment Banking in Slovenia to Retail Banking in Slovenia.
- Corporate exposures previously reported in Non-Core Markets and Activities have been transferred to Corporate and Investment Banking in Slovenia given that special reporting requirements from EC commitments have ceased to apply. The remaining segment has been renamed Non-Core Members and contains non-core subsidiaries mostly in liquidation.
- Further, the SPVs established for NPLs from banks in Serbia and Montenegro, NLB Srbija and NLB Crna Gora, have been transferred from the Strategic Foreign Markets to Non-Core Members.

Due to the new methodology, the segment results for 2019 are not directly comparable to the segment results from the previous year. The table below presents the estimated effects due to the segment changes for the full year 2018.

Estimated effects of segments methodology changes for 2018[1]

in EUR million	Retail banking in Slovenia	Corporate and Investment banking in Slovenia	Strategic foreign markets	Financial markets in Slovenia	Non-core members	Other
Net interest income	3.1	1.8	0.5	-0.3	-5.1	
Net non-interest income	4.6	2.3	-1.8	-8.2	3.2	
Total costs*	-6.1	-4.4	1.4	6.1	3.0	no effects
Impairments and provisions*	-0.9	6.6	1.4	0.0	-7.1	
Result before tax	0.7	6.3	1.5	-2.4	-6.1	
Total assets	37.1	-9.5	-43.5	47.9	-32.1	
Gross loans to customers	38.1	111.8	-69.0	-0.1	-80.8	no effects
Deposit from customers	188.1	-107.6	0.0	-71.0	-9.6	

*negative value=increase, positive value=decrease

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Note: (1) Investment banking was till 2019 officialy a part of Financial Markets in Slovenia but was presented as a separate segment within Corporate banking in Slovenia in previous reports. Under new segmentation it is included in the segment Corporate and Investment banking in Slovenia.

NLB d.d.

NLB d.d., Ljubljana "on stand alone basis"

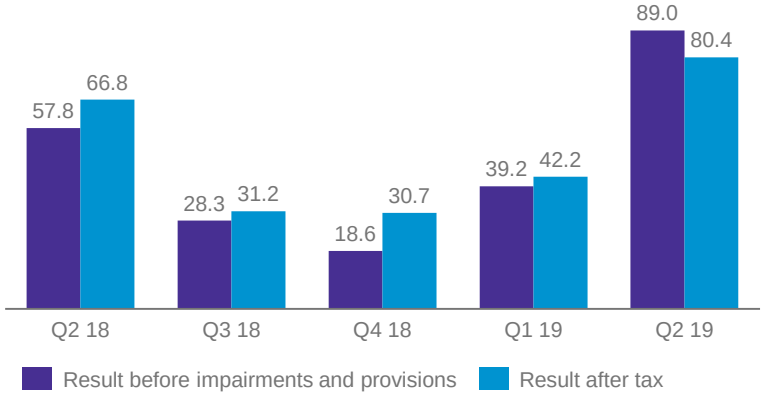
Key financial indicators	1-6 2019	1-6 2018	Change YoY
ROE a.t.	18.4%	14.3%	4.1 p.p.
Interest margin	1.91%	1.87%	0.0 p.p.
CIR	40.4%	46.8%	-6.4 p.p.
Cost of risk net (bps)*	-5	-52	47
LTD net (%)	61.9	66.1	-4.2

Income statement in 000 EUR	1-6 2019	1-6 2018	Change YoY	
Total net operating income	**214,985**	**183,388**	**31,597**	**17.2%**
Net interest income	79,608	77,220	2,388	3.1%
Net non-interest income	135,377	106,168	29,209	27.5%
o/w net fees and commissions	51,107	50,284	823	1.6%
Total costs	**-86,803**	**-85,818**	**-985**	**-1.1%**
Employee costs	-51,165	-50,426	-739	-1.5%
Other general and administrative expenses	-26,900	-26,677	-223	-0.8%
Depreciation and amortization	-8,738	-8,715	-23	-0.3%
Result before impairments and provisions	**128,182**	**97,570**	**30,612**	**31.4%**
Impairments and provisions	4,265	11,970	-7,705	-64.4%
Result after tax	**122,569**	**103,335**	**19,234**	**18.6%**
Number of employees	2,659	2,746	-87	-3.2%

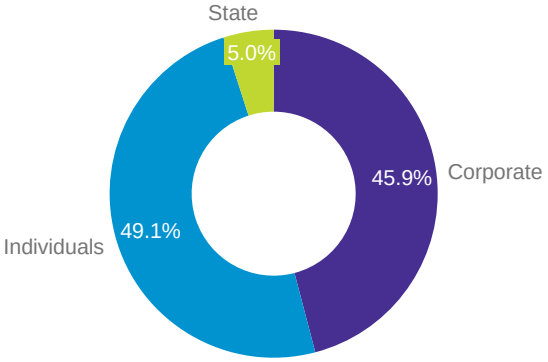
*Calculated as credit impairments and provisions over average net loans to customers.

Balance sheet in 000 EUR	30 Jun 2019	31 Dec 2018	Change YtD	
Total assets	**9,143,016**	**8,811,047**	**331,969**	**3.8%**
Loans to customers (net)	4,462,991	4,478,071	-15,080	-0.3%
Loans to customers (gross)	**4,654,521**	**4,703,671**	**-49,150**	**-1.0%**
Gross loans to corporate	2,137,042	2,190,299	-53,257	-2.4%
Gross loans to individuals	2,286,894	2,241,624	45,270	2.0%
Gross loans to state	230,585	271,748	-41,163	-15.1%
Financial assets	**3,158,131**	**2,869,450**	**288,681**	**10.1%**
Deposits from customers	**7,210,049**	**7,033,409**	**176,640**	**2.5%**
Deposits from corporate	1,318,571	1,392,171	-73,600	-5.3%
Deposits from individuals	5,764,240	5,522,142	242,098	4.4%
Deposits from state	127,238	119,096	8,142	6.8%
NPL gross	274,357	342,900	-68,543	-20.0%
% NPL	5.1%	6.3%	-1.2 p.p.	
Capital (according to local legislation)				
Capital adequacy ratio	22.7%	24.1%	-1.4 p.p.	

Result after tax and before impairments and provisions
(EUR million)



Gross loans to customers split (30 Jun 2019, %)



Retail banking in Slovenia

in EUR million
consolidated

Retail banking in Slovenia

	1-6 2019	1-6 2018	Change YoY		Q2 2019	Q1 2019	Change QoQ
Net interest income	44.1	36.6	7.6	21%	21.2	23.0	-8%
Net non-interest income	35.2	31.0	4.2	14%	15.1	20.0	-24%
Total net operating income	**79.3**	**67.5**	**11.8**	**17%**	36.3	**43.0**	**-16%**
Total costs	-55.2	-51.2	-4.0	-8%	-28.4	-26.8	-6%
Result before impairments and provisions	**24.2**	**16.4**	**7.8**	**48%**	**7.9**	**16.2**	**-51%**
Impairments and provisions	-1.8	-2.2	0.4	19%	-0.7	-1.1	33%
Net gains from investments in subsidiaries, associates, and JVs'	2.5	2.5	0.0	-1%	1.4	1.1	23%
Result before tax	**24.9**	**16.7**	**8.2**	**49%**	**8.6**	**16.3**	**-47%**

	30 Jun 2019	31 Mar 2019	31 Dec 2018	30 Jun 2018	Change YtD		Change YoY		Change QoQ
Net loans to customers	2,296.6	2,277.1	2,217.4	2,143.8	79.2	4%	152.8	7%	1%
Gross loans to customers	2,323.2	2,305.0	2,243.4	2,169.3	79.8	4%	153.9	7%	1%
Housing loans	1,390.2	1,376.8	1,374.6	1,352.1	15.6	1%	38.1	3%	1%
Interest rate on housing loans	*2.54%*	*2.54%*	*2.50%*	*2.49%*	*0.04 p.p.*		*0.05 p.p.*		*0.00 p.p.*
Consumer loans	656.5	628.4	599.0	564.3	57.5	10%	92.2	16%	4%
Interest rate on consumer loans	*6.29%*	*6.28%*	*5.88%*	*5.77%*	*0.41 p.p.*		*0.52 p.p.*		*0.01 p.p.*
Other	276.6	299.7	269.9	252.9	6.7	2%	23.6	9%	-8%
Deposits from customers	6,209.6	6,095.4	5,814.5	5,658.7	395.2	7%	551.0	10%	2%
Interest rate on deposits	*0.06%*	*0.06%*	*0.08%*	*0.09%*	*-0.03 p.p.*		*-0.04 p.p.*		*0.00 p.p.*
Non-performing loans (gross)	43.0	43.9	43.0	46.2	0.0	0%	-3.2	-7%	-2%

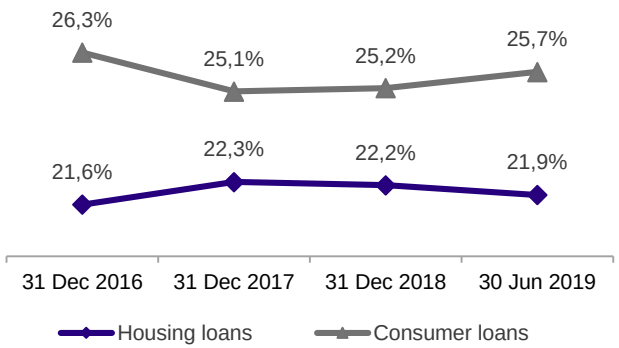
	1-6 2019	1-6 2018	Change YoY
Cost of risk (in bps)	8	10	-3
CIR	69.5%	75.8%	-6.2 p.p.
Interest margin	2.10%	1.89%	0.21 p.p.

- The segment recorded EUR 79.3 million of **net operating income**. The comparison shows EUR 11.8 million increase YoY, of which approximately EUR 3.8 million is assessed as the effect of the transfer of micro clients from Corporate and Investment Banking in Slovenia to Retail Banking in Slovenia segment. In the Q2 2019 segment recorded EUR 36.3 million of net operating income, lower by EUR 6.7 million or 16% QoQ mostly due to DGS and SRF expenses (EUR 5.6 million).
- **Net interest income** is higher due to higher interest rates and growth in volume of gross loans in the amount of EUR 79.8 million, of which EUR 38.1 million increase relates to the transfer of micro clients from the Corporate and Investment Banking in Slovenia segment. The production of new consumer loans amounted to EUR 198.8 million (EUR 168.5 million in H1 2018), which led to an increase of balance by EUR 57.5 million YtD. The share of consumer loans in all gross loans increased to 28% (from 26% in H1 2018).
- Considering the effect of the change in segment presentation (approximately EUR 3.0 million), the **total costs** were slightly higher than in the same period of the previous year.
- The increase in **deposits from customers** is mostly due to the transfer of micro clients from the Corporate and Investment Banking in Slovenia segment (EUR 188.1 million) and an increase in demand deposits.

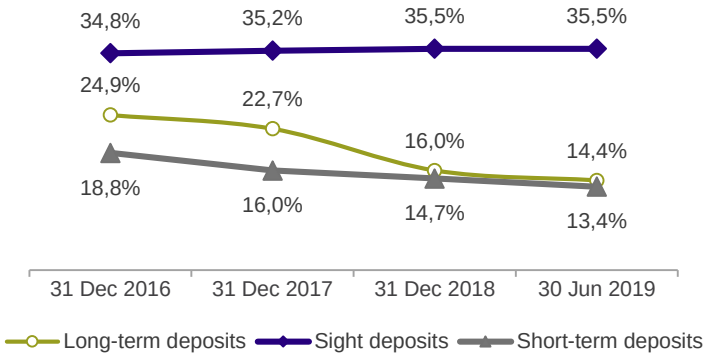
Retail banking in Slovenia

High and stable market shares across products

Market share of net loans to individuals in Slovenia

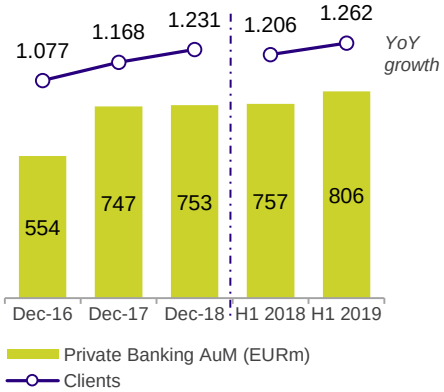


Market share of deposits from individuals in Slovenia

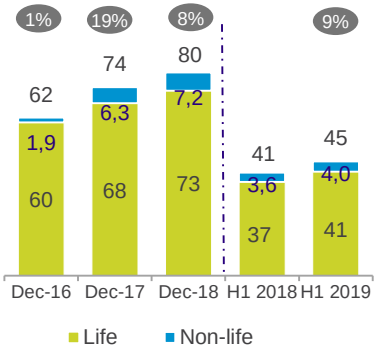


Upside from fee generating products

NLB Private banking offering



NLB Bankassurance GWP (EURm)



- Improving macro and low household indebtedness (21% GDP) driving retail banking growth
- More than 60% of the clients already have one of the package from the offer, presenting almost 20% of the Slovenian population
- #1 player in Private Banking[(1)]
  - Limited competition and strong cross-selling capabilities with Bankassurance and asset management
- # 1 player in Slovenian asset management[(2)]; market share of NLB Skladi at mutual funds in Slovenia equals 32.9% as of 30 June 2019
  - AuM of 1,381 EUR m as of 30 June 2019 including investments in mutual funds and discretionary portfolios
- Bankassurance business
  - Life: NLB Vita has reached 16% market share by GWP, being #3 largest player in the Slovenian market as of 30 June 2019
  - Non-life: Solid growth, in partnership with #3 non-life company (Generali)

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Source: Bank of Slovenia (retail loans and deposits), Company information, Slovenian Fund Management Association
Note: (1) Company information; (2) By AuM (Slovenian Fund Management Association).

Corporate and Investment banking in Slovenia

in EUR million
consolidated

Corporate and Investment banking in Slovenia

	1-6 2019	1-6 2018	Change YoY		Q2 2019	Q1 2019	Change QoQ
Net interest income	19.7	20.2	-0.5	-2%	8.9	10.8	-18%
Net non-interest income	24.5	15.8	8.7	55%	9.0	15.5	-42%
Total net operating income	**44.2**	**36.0**	**8.2**	**23%**	**17.9**	**26.3**	**-32%**
Total costs	-20.8	-21.4	0.6	3%	-10.7	-10.2	-5%
Result before impairments and provisions	**23.3**	**14.6**	**8.8**	**60%**	**7.2**	**16.1**	**-55%**
Impairments and provisions	2.9	10.0	-7.0	-71%	-0.4	3.3	-
Result before tax	**26.2**	**24.5**	**1.7**	**7%**	**6.8**	**19.4**	**-65%**

	30 Jun 2019	31 Mar 2019	31 Dec 2018	30 Jun 2018	Change YtD		Change YoY		Change QoQ
Net loans to customers	1,947.9	2,011.4	1,950.4	1,991.2	-2.5	0%	-43.3	-2%	-3%
Gross loans to customers	2,110.0	2,183.8	2,061.0	2,121.3	49.1	2%	-11.3	-1%	-3%
Corporate	1,922.1	1,987.7	1,854.4	1,900.9	67.7	4%	21.2	1%	-3%
Key/SMECorporates	1,666.4	1,697.2	1,643.2	1,671.6	23.2	1%	-5.2	0%	-2%
Interest rate on Key/SME Corporates loans	*1.85%*	*1.87%*	*1.88%*	*1.93%*	*-0.03 p.p.*		*-0.08 p.p.*		*-0.02 p.p.*
Investment banking*	0.1	*12.25%*	/	/	/		/		
Restructuring and Workout	255.6	290.4	211.2	229.3	44.3	21%	26.2	11%	-12%
State	187.6	195.8	206.1	220.5	-18.6	-9%	-32.9	-15%	-4%
Interest rate on State loans	*2.19%*	*2.84%*	*1.69%*	*1.89%*	*0.49 p.p.*		*0.30 p.p.*		*-0.66 p.p.*
Deposits from customers	992.3	1,111.7	1,120.8	1,069.1	-128.6	-11%	-76.8	-7%	-11%
Interest rate on deposits	*0.07%*	*0.07%*	*0.07%*	*0.07%*	*0.00 p.p.*		*0.00 p.p.*		*0.00 p.p.*
Non-performing loans (gross)	231.4	262.8	179.7	209.2	51.6	29%	22.2	11%	-12%

	1-6 2019	1-6 2018	Change YoY
Cost of risk (in bps)	-12	-50	38
CIR	47.2%	59.5%	-12.3 p.p.
Interest margin	3.34%	2.46%	0.88 p.p.

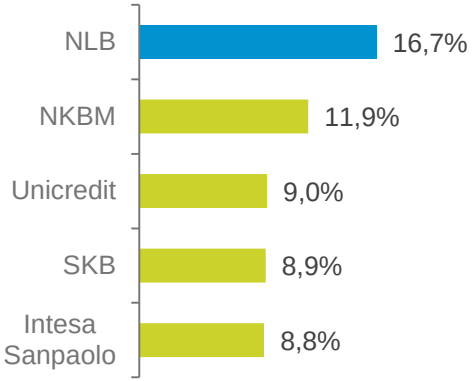
*Investment banking was shown as separate part of this segment before 2019. Profit before tax of Investment banking 1-6 2018 in amount EUR 1.3 million.

- The segment recorded EUR 44.2 million of **net operating income**, EUR 8.2 million increase YoY of which approximately EUR 3.7 million is assigned to the change in segment presentation. **Net non-interest income** in Q1 2019 was mainly affected by partial repayment of a larger exposure measured at fair value through profit and loss (EUR 5.1 million) and in Q2 2019 by DGS and SRF expenses (EUR 1.1 million).
- **Investment Banking and Custody** recorded non-interest income in the amount of EUR 4.5 million and which is an increase of EUR 0.3 million YoY. Total income growth is the result of a larger volume of transactions. The total value of assets under custody in Investment Banking remained at 2018 YE level at EUR 15.6 billion.
- **Total costs** decreased by EUR 0.6 million YoY, despite the transfer of the costs due to the change in segment presentation.
- **Impairments and provisions** were released in the amount of EUR 2.9 million, which includes releases on NPL of clients.
- Increase in **gross loans to customers** is mostly due to the change in segment presentation (EUR 149.8 million due to transfer from NLB Non-core and EUR -38.1 million from transfer of micro clients to Retail Banking in Slovenia). Key and SME corporates portfolio remained stable.

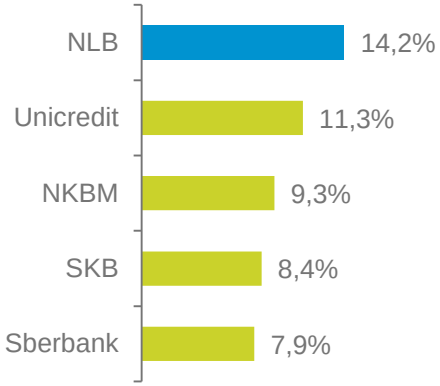
Corporate banking in Slovenia

High market shares across products[1]

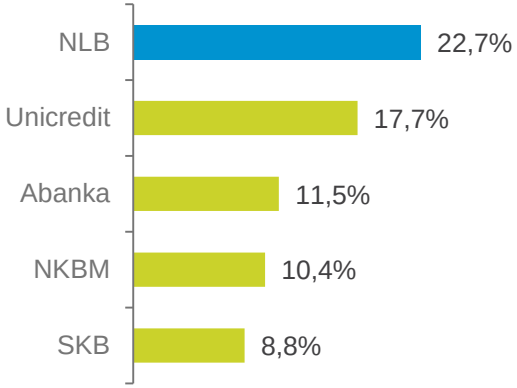
#1 in corporate and state loans



#1 in corporate and state deposits



#1 in guarantees and letters of credit



- Largest bank in the country with high capacity to lend to and service large clients
  - Serves over 9k corporate clients as of 30 June 2019
- Competitive advantage in SME market due to largest branch network fueled the growth in Mid Corporate and Small Enterprises
- Large Corporate portfolio has declined since 2016 mainly due to EC commitments that imposed:
  - RoE targets, affecting NLB ability to participate in recent issuance by State-owned enterprises and high rated corporate clients[3]
  - Additional restrictions on cross-border lending (released in Aug-18), leasing and factoring have impacted new business opportunity
  - In 2018 sizable maturities and prepayments of some larger exposures.

Strong local corporate fee business, across merchant acquiring, investment banking and custody services

12.9k[2]
POS terminals

36.4% market share[2]
in merchant acquiring

EUR 15.6bn
assets under custody

Source: Bank of Slovenia, Company information
Note: (1) Data for NLB as per 30 Jun 2019, other banks as per 30 Mar 2018 (latest available); (2) As of 30 June 2019; (3) Based on NLB internal credit rating.

Strategic foreign markets

in EUR million
consolidated

Strategic foreign markets

	1-6 2019	1-6 2018	Change YoY		Q2 2019	Q1 2019	Change QoQ
Net interest income	77.9	71.9	5.9	8%	39.2	38.6	2%
Net non-interest income	23.8	37.2	-13.5	-36%	11.7	12.1	-4%
Total net operating income	**101.6**	**109.2**	**-7.5**	**-7%**	**50.9**	**50.7**	**0%**
Total costs	-51.1	-49.1	-1.9	-4%	-25.7	-25.3	-2%
Result before impairments and provisions	**50.6**	**60.0**	**-9.5**	**-16%**	**25.2**	**25.4**	**-1%**
Impairments and provisions	-7.1	-1.5	-5.7	-	-3.9	-3.2	-22%
Result before tax	**43.4**	**58.6**	**-15.1**	**-26%**	**21.3**	**22.2**	**-4%**
o/w Result of minority shareholders	3.8	4.5	-0.8	-17%	1.8	2.0	-7%

	30 Jun 2019	31 Mar 2019	31 Dec 2018	30 Jun 2018	Change YtD		Change YoY		Change QoQ
Net loans to customers	2,835.6	2,753.6	2,718.0	2,575.5	117.6	4%	260.1	10%	3%
Gross loans to customers	2,998.7	2,915.8	2,932.7	2,804.7	66.0	2%	193.9	7%	3%
Retail	1,514.6	1,466.7	1,438.1	1,361.1	76.4	5%	153.5	11%	3%
Interest rate on retail loans	*6.78%*	*6.80%*	*7.09%*	*7.18%*	*-0.31 p.p.*		*-0.40 p.p.*		*-0.02 p.p.*
Corporate	1,400.0	1,364.6	1,405.0	1,349.7	-5.0	0%	50.3	4%	3%
Interest rate on corporate loans	*4.62%*	*4.71%*	*4.92%*	*4.89%*	*-0.30 p.p.*		*-0.26 p.p.*		*-0.08 p.p.*
State	84.1	84.4	89.6	94.0	-5.5	-6%	-9.8	-10%	0%
Interest rate on state loans	*4.21%*	*4.23%*	*4.33%*	*4.33%*	*-0.12 p.p.*		*-0.12 p.p.*		*-0.03 p.p.*
Deposits from customers	3,547.6	3,466.1	3,438.1	3,146.3	109.5	3%	401.3	13%	2%
Interest rate on deposits	*0.55%*	*0.56%*	*0.61%*	*0.64%*	*-0.07 p.p.*		*-0.10 p.p.*		*-0.01 p.p.*
Non-performing loans (gross)	147.0	146.2	219.9	242.5	-72.8	-33%	-95.4	-39%	1%

	1-6 2019	1-6 2018	Change YoY
Cost of risk (in bps)	10	3	7
CIR	50.2%	45.0%	5.2 p.p.
Interest margin	3.67%	3.81%	-0.13 p.p.

- The segment recorded EUR 101.6 million of **net operating income**. In 2018, the result was positively affected by the sale of Nov penziski fond. Increase of **net interest income** of EUR 5.9 million was recorded in all banking members due to a higher volume despite the decreasing trend of interest margins.
- **Total costs** increased by EUR 1.9 million YoY.
- **Impairments and provisions** were established in the amount of EUR 7.1 million (EUR 2.7 million due to established provisions for pending lawsuits in NLB Banka, Podgorica), compared to EUR 1.5 million in H1 2018.
- **Gross loans** in most subsidiary banks increased, the largest increases were recorded in NLB Banka, Prishtina (EUR 46.1 million) and NLB Banka, Beograd (EUR 44.2 million).
- **Gross loans to customers** increased by EUR 66.0 million YtD, while due to change in segment presentation and transferring exposures from SPVs to Non-Core Members decreased (EUR -69.0 million).
- **NPLs** decreased mostly due to the same reason.

SEE banks continuing solid performance

- ✓ **8% growth of net interest income YoY**
- ✓ **Net non-interest income on the same level YoY, if non-recurring income from the sale of NLB Nov Penziski Fond, Skopje in Q1 2018 is excluded**
- ✓ **Growing credit portfolio in most markets, with aggregate deposits balance marginally up YtD**

	NLB Banka Skopje		*NLB Banka Banja Luka*		*NLB Banka Sarajevo*		*NLB Banka Prishtina*		*NLB Banka Podgorica*		*NLB Banka Beograd*		***Total core banks(1)***		
B/S (EURm)	*30 Jun 2019*	*31 Dec 2018*	*30 Jun 2019*	*31 Dec 2018*	*30 Jun 2019*	*31 Dec 2018*	*30 Jun 2019*	*31 Dec 2018*	*30 Jun 2019*	*31 Dec 2018*	*30 Jun 2019*	*31 Dec 2018*	*30 Jun 2019*	*31 Dec 2018*	Δ
Total assets	1,363	1,350	760	721	613	592	711	668	514	489	527	484	4,489	4,305	4%
Net loans to customers	851	859	392	385	387	359	512	467	329	311	363	319	2,836	2,699	5%
Deposits from customers	1,095	1,076	603	576	485	472	599	586	406	392	370	353	3,558	3,455	3%
P&L (EURm)	*1-6 2019*	*1-6 2018*	*1-6 2019*	*1-6 2018*	*1-6 2019*	*1-6 2018*	*1-6 2019*	*1-6 2018*	*1-6 2019*	*1-6 2018*	*1-6 2019*	*1-6 2018*	*1-6 2019*	*1-6 2018*	Δ
NII(2)	24.5	23.7	9.4	8.8	8.9	8.7	15.1	12.9	9.9	8.5	10.1	9.6	77.9	72.2	8%
NNII(2)	7.5	16.1	5.3	5.3	4.5	4.1	3.0	2.3	2.6	2.7	0.8	1.7	23.8	32.2	-26%(4)
OpEx	-13.2	-12.2	-6.2	-6.5	-7.0	-7.0	-6.1	-6.0	-6.3	-5.9	-9.4	-8.7	-48.3	-46.3	4%
PPI	18.8	27.7	8.5	7.6	6.4	5.8	12.0	9.3	6.2	5.2	1.5	2.6	53.4	58.1	-8%
Result a.t.	14.0	22.6	9.6	9.8	5.1	5.5	9.5	7.4	2.7(5)	5.5	1.0(6)	2.5	41.9	53.2	-21%
Ratios	*1-6 2019*	*1-6 2018*	*1-6 2019*	*1-6 2018*	*1-6 2019*	*1-6 2018*	*1-6 2019*	*1-6 2018*	*1-6 2019*	*1-6 2018*	*1-6 2019*	*1-6 2018*			
RoE a.t.	13.7%	25.3%	21.9%	22.1%	12.5%	14.9%	25.2%	21.6%	8.0%	16.3%	2.9%	7.8%			
Net interest margin(3)	3.74%	3.97%	2.60%	2.64%	3.02%	3.24%	4.45%	4.37%	4.28%	3.95%	4.21%	5.12%			
CIR	41.3%	30.5%	42.4%	46.2%	52.2%	54.8%	33.6%	39.2%	50.5%	53.2%	86.5%	77.2%			
LTD net (in %)	77.7	83.2	65.1	66.1	80.0	80.5	85.5	83.6	80.9	78.9	98.3	98.9			

NLB Group

Source: Company information

Note: (1) Calculated as simple sums for each item; (2) NII: Net interest income; (3) Calculated on the basis of interest bearing assets ; interest margin data for 2018 are adjusted to new methodology (calculation based on the number of days for the period). (4) In Q12018 one-off effect from the sale of Nov Penziski Fond, Skopje (EUR 8.5 milion effect on NLB banka Skopje level). (5) Due to established provisions for legal disputes (EUR 2.7 million). (6) Lower profit due to legal dispute (EUR 1.4 million).

NLB Banka Skopje

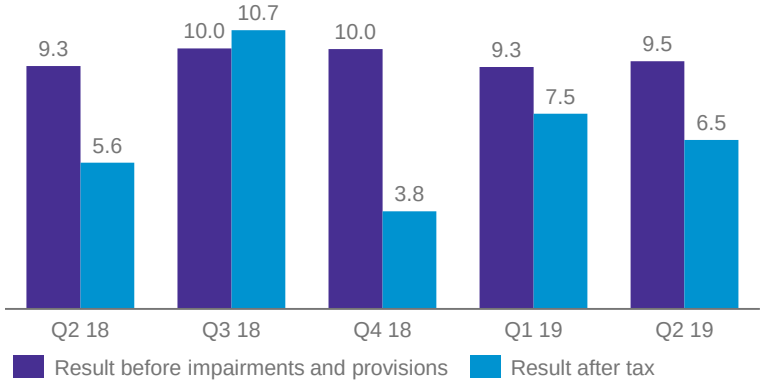
NLB Banka AD Skopje "on stand alone basis"

Key financial indicators	1-6 2019	1-6 2018	Change YoY	
ROE a.t.	13.7%	25.3%	-11.6 p.p.	
Interest margin*	3.74%	3.97%	-0.2 p.p.	
CIR	41.3%	30.5%	10.8 p.p.	
Cost of risk net (bps)**	71	64	7	
LTD net (%)	77.7	83.2	-5.5	
Income statement in 000 EUR	**1-6 2019**	**1-6 2018**	**Change YoY**	
Total net operating income	**32,041**	**39,871**	**-7,830**	**-19.6%**
Net interest income	24,545	23,745	800	3.4%
Net non-interest income	7,496	16,126	-8,630	-53.5%
o/w net fees and commissions	7,115	7,207	-92	-1.3%
Total costs	**-13,236**	**-12,152**	**-1,084**	**-8.9%**
Employee costs	-6,820	-6,454	-366	-5.7%
Other general and administrative expenses	-4,424	-4,139	-285	-6.9%
Depreciation and amortization	-1,992	-1,559	-433	-27.8%
Result before impairments and provisions	**18,805**	**27,719**	**-8,914**	**-32.2%**
Impairments and provisions	-3,256	-2,869	-387	-13.5%
Result after tax	**13,991**	**22,615**	**-8,624**	**-38.1%**
Number of employees	876	855	21	2.5%

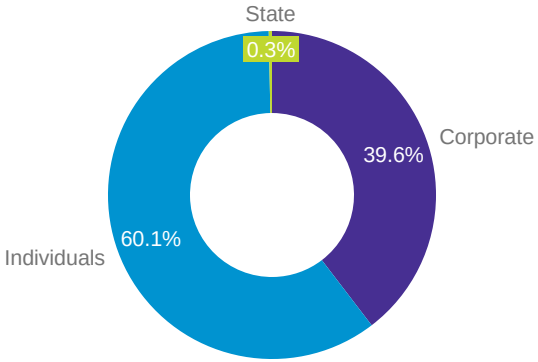
* Interest margin data for 2018 are adjusted to new methodology (calculation based on the number of days for the period).
** Calculated as credit impairments and provisions over average net loans to customers.

Balance sheet in 000 EUR	30 Jun 2019	31 Dec 2018	Change YtD	
Total assets	**1,363,345**	**1,350,054**	**13,291**	**1.0%**
Loans to customers (net)	851,340	858,592	-7,252	-0.8%
Loans to customers (gross)	**912,458**	**918,140**	**-5,682**	**-0.6%**
Gross loans to corporate	361,381	383,212	-21,831	-5.7%
Gross loans to individuals	548,175	531,406	16,769	3.2%
Gross loans to state	2,902	3,522	-620	-17.6%
Financial assets	**236,753**	**196,112**	**40,641**	**20.7%**
Deposits from customers	**1,095,231**	**1,076,154**	**19,077**	**1.8%**
Deposits from corporate	293,848	272,060	21,788	8.0%
Deposits from individuals	797,118	800,372	-3,254	-0.4%
Deposits from state	4,265	3,722	543	14.6%
NPL gross	57,375	56,050	1,325	2.4%
% NPL	5.2%	5.1%	0.1 p.p.	
Capital (according to local legislation)				
Capital adequacy ratio	17.8%	16.7%	1.2 p.p.	

Result after tax and before impairments and provisions (EUR million)



Gross loans to customers split (30 Jun 2019, %)



NLB Banka Banja Luka

NLB Banka A.D., Banja Luka "on stand alone basis"

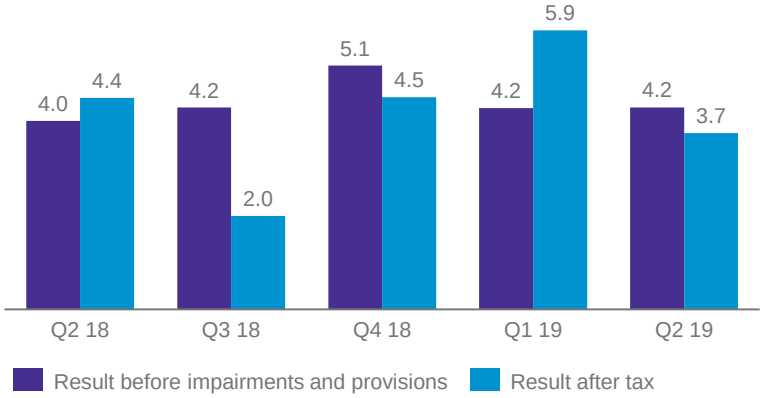
Key financial indicators	1-6 2019	1-6 2018	Change YoY
ROE a.t.	21.9%	22.1%	-0.2 p.p.
Interest margin*	2.60%	2.64%	0.0 p.p.
CIR	42.4%	46.2%	-3.8 p.p.
Cost of risk net (bps)**	-103	-193	90
LTD net (%)	65.1	66.1	-1.0

Income statement in 000 EUR	1-6 2019	1-6 2018	Change YoY	
Total net operating income	**14,711**	**14,102**	**609**	**4.3%**
Net interest income	9,388	8,794	594	6.8%
Net non-interest income	5,323	5,308	15	0.3%
o/w net fees and commissions	5,306	5,337	-31	-0.6%
Total costs	**-6,236**	**-6,510**	**274**	**4.2%**
Employee costs	-4,030	-4,221	191	4.5%
Other general and administrative expenses	-1,535	-1,726	191	11.1%
Depreciation and amortization	-671	-563	-108	-19.2%
Result before impairments and provisions	**8,475**	**7,592**	**883**	**11.6%**
Impairments and provisions	1,765	3,238	-1,473	-45.5%
Result after tax	**9,566**	**9,767**	**-201**	**-2.1%**
Number of employees	478	486	-8	-1.6%

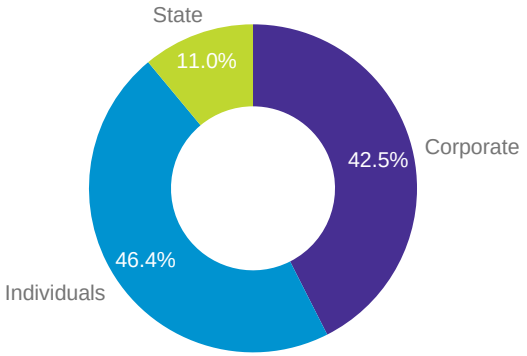
Balance sheet in 000 EUR	30 Jun 2019	31 Dec 2018	Change YtD	
Total assets	**760,251**	**720,509**	**39,742**	**5.5%**
Loans to customers (net)	392,384	384,806	7,578	2.0%
Loans to customers (gross)	**413,127**	**408,312**	**4,815**	**1.2%**
Gross loans to corporate	175,685	176,353	-668	-0.4%
Gross loans to individuals	191,859	180,933	10,926	6.0%
Gross loans to state	45,583	51,026	-5,443	-10.7%
Financial assets	**150,559**	**107,316**	**43,243**	**40.3%**
Deposits from customers	**602,663**	**575,775**	**26,888**	**4.7%**
Deposits from corporate	143,328	135,670	7,658	5.6%
Deposits from individuals	421,367	402,203	19,164	4.8%
Deposits from state	37,968	37,902	66	0.2%
NPL gross	15,416	19,199	-3,783	-19.7%
% NPL	2.6%	3.2%	-0.6 p.p.	
Capital (according to local legislation)				
Capital adequacy ratio	16.3%	15.6%	0.8 p.p.	

* Interest margin data for 2018 are adjusted to new methodology (calculation based on the number of days for the period).
* * Calculated as credit impairments and provisions over average net loans to customers.

Result after tax and before impairments and provisions (EUR million)



Gross loans to customers split (30 Jun 2019, %)



NLB Banka Sarajevo

NLB Banka d.d., Sarajevo "on stand alone basis"

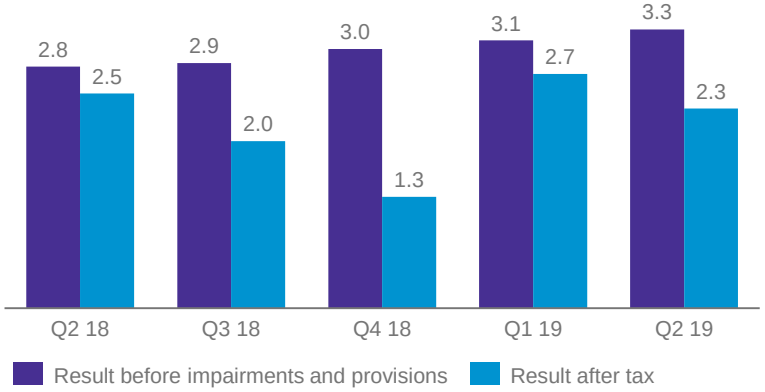
Key financial indicators	1-6 2019	1-6 2018	Change YoY
ROE a.t.	12.5%	14.9%	-2.4 p.p.
Interest margin*	3.02%	3.24%	-0.2 p.p.
CIR	52.2%	54.8%	-2.5 p.p.
Cost of risk net (bps)**	28	8	20
LTD net (%)	80.0	80.5	-0.5

Income statement in 000 EUR	1-6 2019	1-6 2018	Change YoY	
Total net operating income	**13,425**	**12,749**	**676**	**5.3%**
Net interest income	8,877	8,659	218	2.5%
Net non-interest income	4,548	4,090	458	11.2%
o/w net fees and commissions	4,207	3,557	650	18.3%
Total costs	**-7,012**	**-6,990**	**-22**	**-0.3%**
Employee costs	-4,103	-4,168	65	1.6%
Other general and administrative expenses	-2,207	-2,427	220	9.1%
Depreciation and amortization	-702	-395	-307	-77.7%
Result before impairments and provisions	**6,413**	**5,759**	**654**	**11.4%**
Impairments and provisions	-593	191	-784	-
Result after tax	**5,090**	**5,474**	**-384**	**-7.0%**
Number of employees	446	467	-21	-4.5%

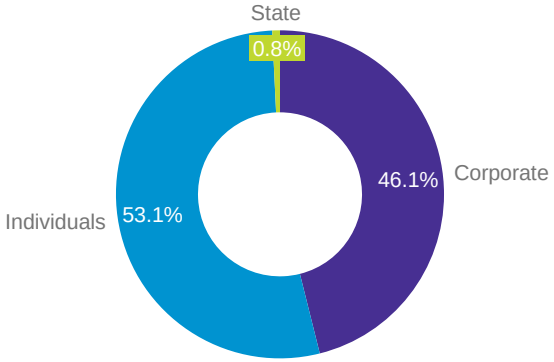
Balance sheet in 000 EUR	30 Jun 2019	31 Dec 2018	Change YtD	
Total assets	**612,918**	**592,166**	**20,752**	**3.5%**
Loans to customers (net)	387,499	359,499	28,000	7.8%
Loans to customers (gross)	**418,896**	**391,567**	**27,329**	**7.0%**
Gross loans to corporate	193,102	176,368	16,734	9.5%
Gross loans to individuals	222,616	211,972	10,644	5.0%
Gross loans to state	3,178	3,227	-49	-1.5%
Financial assets	**46,783**	**39,337**	**7,446**	**18.9%**
Deposits from customers	**484,601**	**472,297**	**12,304**	**2.6%**
Deposits from corporate	125,101	127,175	-2,074	-1.6%
Deposits from individuals	288,115	280,207	7,908	2.8%
Deposits from state	71,385	64,915	6,470	10.0%
NPL gross	30,034	30,805	-771	-2.5%
% NPL	5.4%	5.7%	-0.3 p.p.	
Capital (according to local legislation)				
Capital adequacy ratio	15.4%	16.4%	-0.9 p.p.	

* Interest margin data for 2018 are adjusted to new methodology (calculation based on the number of days for the period).
* * Calculated as credit impairments and provisions over average net loans to customers.

Result after tax and before impairments and provisions (EUR million)



Gross loans to customers split (30 Jun 2019, %)



NLB Banka Prishtina

NLB Banka sh.a., Prishtine "on stand alone basis"

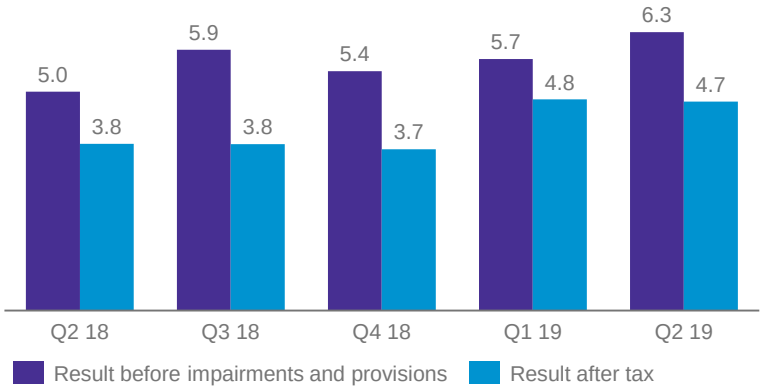
Key financial indicators	1-6 2019	1-6 2018	Change YoY
ROE a.t.	25.2%	21.6%	3.5 p.p.
Interest margin*	4.45%	4.37%	0.1 p.p.
CIR	33.6%	39.2%	-5.6 p.p.
Cost of risk net (bps)**	27	31	-4
LTD net (%)	85.5	83.6	1.9

Income statement in 000 EUR	1-6 2019	1-6 2018	Change YoY	
Total net operating income	**18,117**	**15,246**	**2,871**	**18.8%**
Net interest income	15,121	12,928	2,193	17.0%
Net non-interest income	2,996	2,318	678	29.2%
o/w net fees and commissions	3,511	2,834	677	23.9%
Total costs	**-6,094**	**-5,982**	**-112**	**-1.9%**
Employee costs	-3,095	-3,113	18	0.6%
Other general and administrative expenses	-2,108	-2,272	164	7.2%
Depreciation and amortization	-891	-597	-294	-49.2%
Result before impairments and provisions	**12,023**	**9,264**	**2,759**	**29.8%**
Impairments and provisions	-1,450	-1,065	-385	-36.2%
Result after tax	**9,523**	**7,398**	**2,125**	**28.7%**
Number of employees	473	478	-5	-1.0%

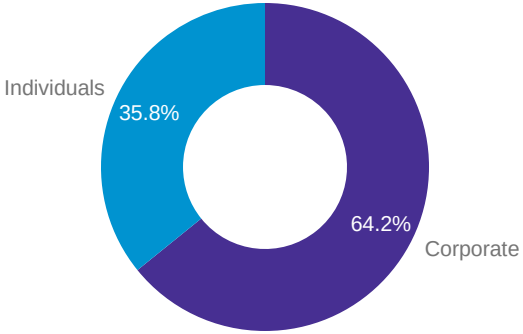
Balance sheet in 000 EUR	30 Jun 2019	31 Dec 2018	Change YtD	
Total assets	**710,749**	**668,127**	**42,622**	**6.4%**
Loans to customers (net)	512,296	466,854	45,442	9.7%
Loans to customers (gross)	**540,088**	**493,950**	**46,138**	**9.3%**
Gross loans to corporate	346,633	315,408	31,225	9.9%
Gross loans to individuals	193,455	178,542	14,913	8.4%
Gross loans to state	0	0	0	-
Financial assets	**70,300**	**64,733**	**5,567**	**8.6%**
Deposits from customers	**599,426**	**585,851**	**13,575**	**2.3%**
Deposits from corporate	147,274	154,828	-7,554	-4.9%
Deposits from individuals	440,249	421,003	19,246	4.6%
Deposits from state	11,903	10,020	1,883	18.8%
NPL gross	13,603	14,361	-758	-5.3%
% NPL	2.1%	2.4%	-0.3 p.p.	
Capital (according to local legislation)				
Capital adequacy ratio	16.6%	14.6%	2.0 p.p.	

* Interest margin data for 2018 are adjusted to new methodology (calculation based on the number of days for the period).
* * Calculated as credit impairments and provisions over average net loans to customers.

Result after tax and before impairments and provisions (EUR million)



Gross loans to customers split (30 Jun 2019, %)



NLB Banka Podgorica

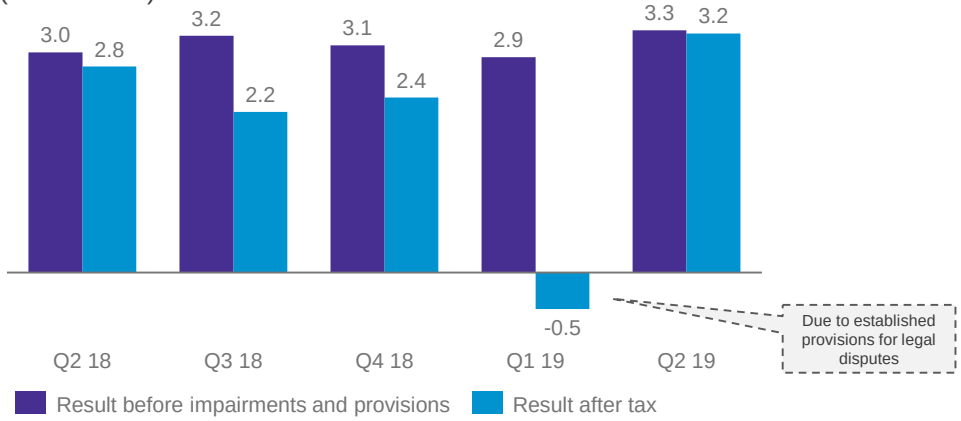
NLB Banka a.d., Podgorica "on stand alone basis"

Key financial indicators	1-6 2019	1-6 2018	Change YoY	
ROE a.t.	8.0%	16.3%	-8.4 p.p.	
Interest margin*	4.28%	3.95%	0.3 p.p.	
CIR	50.5%	53.2%	-2.7 p.p.	
Cost of risk net (bps)**	-22	-32	9	
LTD net (%)	80.9	78.9	2.0	
Income statement in 000 EUR	**1-6 2019**	**1-6 2018**	**Change YoY**	
Total net operating income	**12,464**	**11,158**	**1,306**	**11.7%**
Net interest income	9,854	8,466	1,388	16.4%
Net non-interest income	2,610	2,692	-82	-3.0%
o/w net fees and commissions	2,935	2,740	195	7.1%
Total costs	**-6,292**	**-5,936**	**-356**	**-6.0%**
Employee costs	-3,616	-3,547	-69	-1.9%
Other general and administrative expenses	-1,901	-1,951	50	2.6%
Depreciation and amortization	-775	-438	-337	-76.9%
Result before impairments and provisions	**6,172**	**5,222**	**950**	**18.2%**
Impairments and provisions	-3,137	291	-3,428	-
Result after tax	**2,734**	**5,506**	**-2,772**	**-50.3%**
Number of employees	297	306	-9	-2.9%

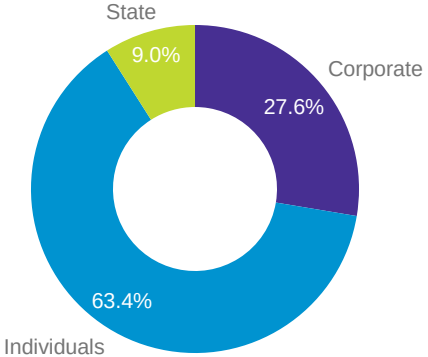
* Interest margin data for 2018 are adjusted to new methodology (calculation based on the number of days for the period).
* * Calculated as credit impairments and provisions over average net loans to customers.

Balance sheet in 000 EUR	30 Jun 2019	31 Dec 2018	Change YtD	
Total assets	**514,039**	**489,283**	**24,756**	**5.1%**
Loans to customers (net)	328,762	310,692	18,070	5.8%
Loans to customers (gross)	**342,093**	**323,914**	**18,179**	**5.6%**
Gross loans to corporate	94,541	90,223	4,318	4.8%
Gross loans to individuals	216,744	203,207	13,537	6.7%
Gross loans to state	30,808	30,484	324	1.1%
Financial assets	**45,481**	**54,781**	**-9,300**	**-17.0%**
Deposits from customers	**406,321**	**391,750**	**14,571**	**3.7%**
Deposits from corporate	120,994	116,364	4,630	4.0%
Deposits from individuals	268,328	256,975	11,353	4.4%
Deposits from state	16,999	18,411	-1,412	-7.7%
NPL gross	20,565	20,627	-62	-0.3%
% NPL	4.9%	5.2%	-0.3 p.p.	
Capital (according to local legislation)				
Capital adequacy ratio	16.6%	16.2%	0.4 p.p.	

Result after tax and before impairments and provisions (EUR million)



Gross loans to customers split (30 Jun 2019, %)



NLB Banka Beograd

NLB Banka a.d., Beograd "on stand alone basis"

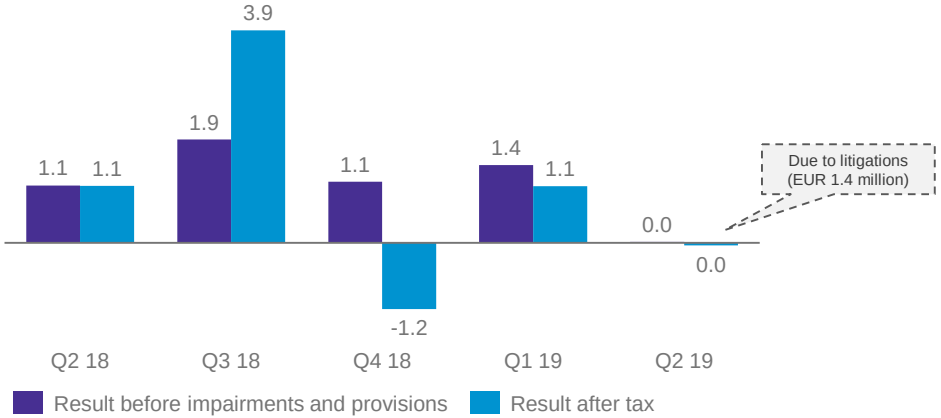
Key financial indicators	1-6 2019	1-6 2018	Change YoY
ROE a.t.	2,9%	7,8%	-4,9 p.p.
Interest margin*	4,21%	5,12%	-0,9 p.p.
CIR	86,5%	77,2%	9,3 p.p.
Cost of risk net (bps)**	20	-3	22
LTD net (%)	98,3	98,9	-0,6

Income statement in 000 EUR	1-6 2019	1-6 2018	Change YoY	
Total net operating income	**10.857**	**11.268**	**-411**	**-3,6%**
Net interest income	10.070	9.570	500	5,2%
Net non-interest income	787	1.698	-911	-53,7%
o/w net fees and commissions	2.706	2.284	422	18,5%
Total costs	**-9.394**	**-8.703**	**-691**	**-7,9%**
Employee costs	-5.022	-4.509	-513	-11,4%
Other general and administrative expenses	-3.050	-3.480	430	12,4%
Depreciation and amortization	-1.322	-714	-608	-85,2%
Result before impairments and provisions	**1.463**	**2.565**	**-1.102**	**-43,0%**
Impairments and provisions	-460	-51	-409	-
Result after tax	**1.003**	**2.488**	**-1.485**	**-59,7%**
Number of employees	466	444	22	5,0%

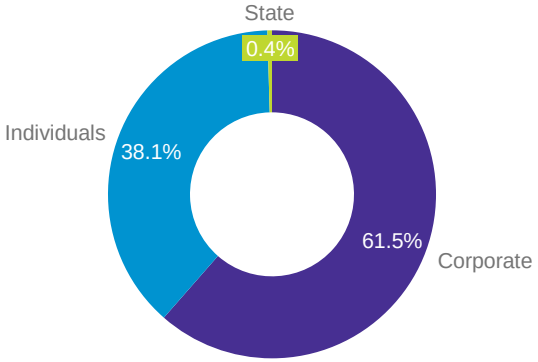
Balance sheet in 000 EUR	30 Jun 2019	31 Dec 2018	Change YtD	
Total assets	**527,369**	**484,492**	**42,877**	**8.8%**
Loans to customers (net)	363,343	318,792	44,551	14.0%
Loans to customers (gross)	**372,035**	**327,847**	**44,188**	**13.5%**
Gross loans to corporate	228,636	198,833	29,803	15.0%
Gross loans to individuals	141,730	127,629	14,101	11.0%
Gross loans to state	1,669	1,385	284	20.5%
Financial assets	**71,476**	**58,285**	**13,191**	**22.6%**
Deposits from customers	**369,732**	**352,940**	**16,792**	**4.8%**
Deposits from corporate	158,380	160,683	-2,303	-1.4%
Deposits from individuals	199,523	182,702	16,821	9.2%
Deposits from state	11,829	9,555	2,274	23.8%
NPL gross	10,024	9,957	67	0.7%
% NPL	2.3%	2.4%	-0.1 p.p.	
Capital (according to local legislation)				
Capital adequacy ratio	20.8%	16.7%	4.1 p.p.	

* Interest margin data for 2018 are adjusted to new methodology (calculation based on the number of days for the period).
* * Calculated as credit impairments and provisions over average net loans to customers.

Result after tax and before impairments and provisions (EUR million)



Gross loans to customers split (30 Jun 2019, %)



Financial markets in Slovenia(1)

in million EUR
consolidated

Financial markets in Slovenia

	1-6 2019	1-6 2018	Change YoY		Q2 2019	Q1 2019	Change QoQ
Net interest income	15.9	17.6	-1.8	-10%	9.9	6.0	64%
Net non-interest income	1.5	-0.3	1.8	-	-0.6	2.1	-
Total net operating income	**17.4**	**17.3**	**0.1**	**0%**	**9.3**	**8.1**	**14%**
Total costs	-3.5	-3.3	-0.2	-6%	-1.8	-1.7	-8%
Result before impairments and provisions	**13.8**	**14.0**	**-0.1**	**-1%**	**7.4**	**6.4**	**15%**
Impairments and provisions	-0.5	0.0	-0.4	-	-0.1	-0.3	54%
Result before tax	**13.4**	**13.9**	**-0.6**	**-4%**	**7.3**	**6.1**	**19%**

	30 Jun 2019	31 Mar 2019	31 Dec 2018	30 Jun 2018	Change YtD		Change YoY		Change QoQ
Balances with Central banks	520.2	666.3	575.0	406.2	-54.8	-10%	114.1	28%	-22%
Banking book securities	2,983.4	2,924.1	2,755.2	2,563.9	228.1	8%	419.5	16%	2%
Interest rate on banking book securities	*1.07%*	*1.10%*	*1.25%*	*1.27%*	*-0.17 p.p.*		*-0.20 p.p.*		*-0.03 p.p.*
Wholesale funding	235.3	244.0	244.1	252.5	-8.9	-4%	261.4	104%	-4%
Interest rate on wholesale funding	*0.51%*	*0.53%*	*0.48%*	*0.44%*	*0.03 p.p.*		*0.08 p.p.*		*-0.02 p.p.*
Subordinated liabilities	44.9	-	-	-	-		-		-
Interest rate on subordinated liabilities	*4.20%*	-	-	-	-		-		-

- Lower **net interest income**, EUR 1.8 million YoY, due to lower transformation margin.
- Higher **net non-interest income**, EUR 1.8 million YoY, mostly due to active management of banking book securities, which positively affected the net income from financial transactions, mostly in Q1 2019. In Q2 2019 net non-interest income was affected with SRF expenses (EUR 0.3 million).
- Decrease in **balances with the central banks** (EUR 54.8 million YtD) and increase in banking book securities (EUR 228.1 million YtD).

NLB Group

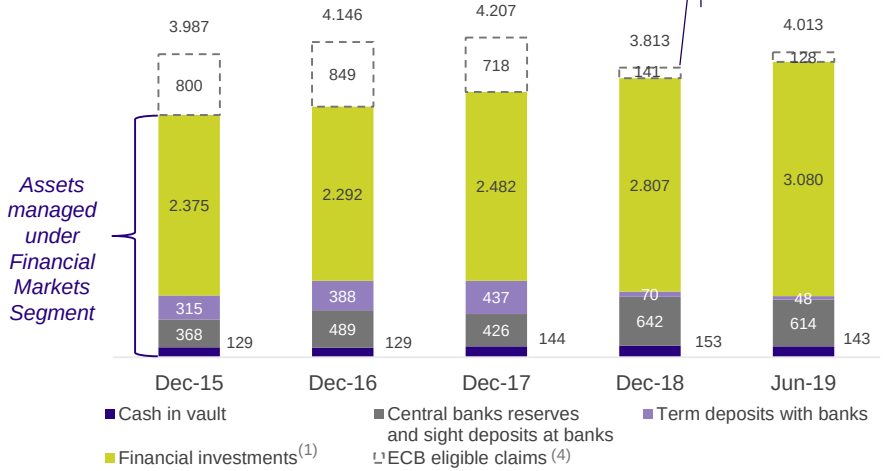
Note: (1) The segment Financial markets in Slovenia was in previous reports shown without Investment banking so the results are comparable with previous year.

Financial markets in Slovenia

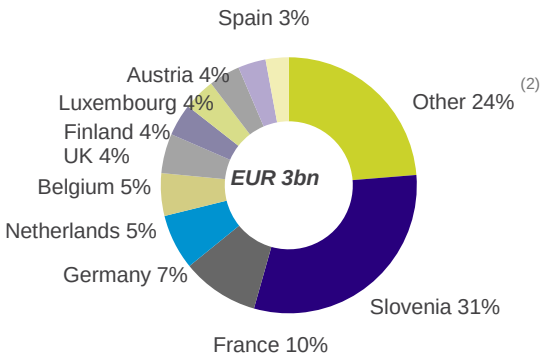
Strong liquidity position

Liquid assets evolution (EURm)

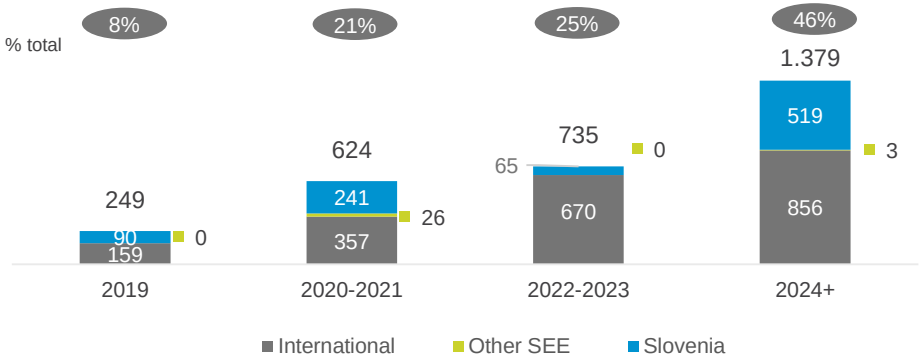
The volume of ECB eligible credit claims decreased due to the modification in ECB eligibility criterion adopted on 7 February 2018 in ECB Guideline (EU) 2018/570.



Well diversified banking book by geography (30 June 2019)



Maturity profile of banking book securities(3) (30 June 2019, EURm)



Well positioned and funded division

- Strong liquidity buffer provides solid base for future core growth consisting of liquid assets which are not encumbered for operational or regulatory purposes
- Banking book securities portfolio is well diversified in terms of asset class and geography to minimize concentration risk, and is invested predominantly in high quality issuers on prudent tenors

NLB Group

Note: Numbers refer to NLB d.d. only; (1) Incl. trading and banking book securities; (2) Includes other European countries, US, Canada, Australia and Russian federation; (3) Including DARS bonds; (4) Loans booked under segment Corporate Banking Slovenia.

Non-core members

in EUR million
consolidated

Non-core members

	1-6 2019	1-6 2018	Change YoY		Q2 2019	Q1 2019	Change QoQ
Net interest income	1.6	5.3	-3.8	-71%	0.6	1.0	-40%
Net non-interest income	4.3	4.2	0.1	2%	1.5	2.8	-48%
Total net operating income	**5.9**	**9.6**	**-3.7**	**-39%**	**2.1**	**3.8**	**-46%**
Total costs	-6.5	-9.4	2.9	31%	-3.4	-3.1	-11%
Result before impairments and provisions	**-0.6**	**0.2**	**-0.8**	**-**	**-1.3**	**0.7**	**-**
Impairments and provisions	1.0	7.8	-6.8	-87%	0.3	0.7	-53%
Result before tax	**0.4**	**8.0**	**-7.6**	**-95%**	**-1.0**	**1.4**	**-**

	30 Jun 2019	31 Mar 2019	31 Dec 2018	30 Jun 2018	Change YtD		Change YoY		Change QoQ
Segment assets	**205.8**	**216.9**	**263.7**	**345.0**	**-57.9**	**-22%**	**402.8**	**117%**	**-5%**
Net loans to customers	93.3	103.8	160.9	227.1	-67.6	-42%	294.7	130%	-10%
Gross loans to customers	181.6	196.0	288.6	395.0	-107.0	-37%	502.0	127%	-7%
Investment property and property & equipment received for repayment of loans	44.5	45.1	68.5	42.7	-24.1	-35%	66.8	156%	-1%
Other assets	68.1	68.1	34.3	75.1	33.8	99%	41.3	55%	0%
Deposits from customers	0.0	0.0	9.6	9.2	-9.6	-	18.8	-	-
Non-performing loans (gross)	121.1	126.3	179.7	253.8	-58.7	-33%	312.4	123%	-4%

	1-6 2019	1-6 2018	Change YoY
Cost of risk (in bps)	-130	-348	218
CIR	110.3%	98.3%	31.4 p.p.

- The segment recorded EUR 3.7 million decrease of **net operating income**, partially due to transfer of NLB Non-core part to Corporate and Investment Banking in Slovenia (approximately EUR -3.3 million) and transfer of NLB Srbija and NLB Crna Gora from Strategic Foreign Markets (EUR 0.6 million); non-recurring effect on **net non-interest income** from contractual penalty in Q1 2019 (EUR 1.3 million).
- Decrease in **total costs**, EUR 2.9 million YoY, due to divestment of non-strategic Group members, transfer of NLB Non-core part to Corporate (approximately EUR -2.2 million) and transfer of NLB Srbija and NLB Crna Gora from Strategic Foreign Markets (EUR 0.7 million).
- **Gross loans to customers** decreased due to divestment of non-strategic Group members, but mostly due to the change in segment presentation, EUR 107.0 million YtD, of which EUR 149.8 million from transfer of NLB Non-core part to Corporate and Investment Banking in Slovenia and EUR 69.0 million from transfer of NLB Srbija and NLB Crna Gora from Strategic Foreign Markets.
- Decrease in **deposits from customers**, EUR 9.6 million due to transfer of NLB Non-core part to Corporate and Investment Banking in Slovenia.
- **NPLs** decrease mostly due to the change in segment presentation.

Other(1)

in EUR million consolidated	Other							
	1-6 2019	1-6 2018	Change YoY		Q2 2019	Q1 2019	Q2 2018	Change QoQ
Total net operating income	**9.7**	**0.1**	**9.6**	**-**	**7.6**	**2.1**	**0.3**	**-**
Total costs	-5.0	-3.5	-1.6	-45%	-2.8	-2.2	-1.6	-25%
Result before impairments and provisions	**4.7**	**-3.3**	**8.0**	**-**	**4.8**	**-0.1**	**-1.3**	**-**
Impairments and provisions	0.0	0.3	-0.3	-	0.0	0.0	0.5	-
Result before tax	**4.7**	**-3.0**	**7.7**	**-**	**4.8**	**-0.1**	**-0.9**	

- The segment Other recorded EUR 4.7 million of **profit before tax**, EUR 7.7 million increase YoY. EUR 9.7 million **net operating income** was influenced by positive effect from from equity share EUR 6.3 million and EUR 0.2 million from contractual penalty. EUR 5.0 million of **total costs**, related mostly to IT, cash transport, external realization, restructuring costs and empty business premises.

NLB Group

Note: (1) No changes were made in this segment due to reorganization.

Appendix 2:

Macro Overview

NLB Group

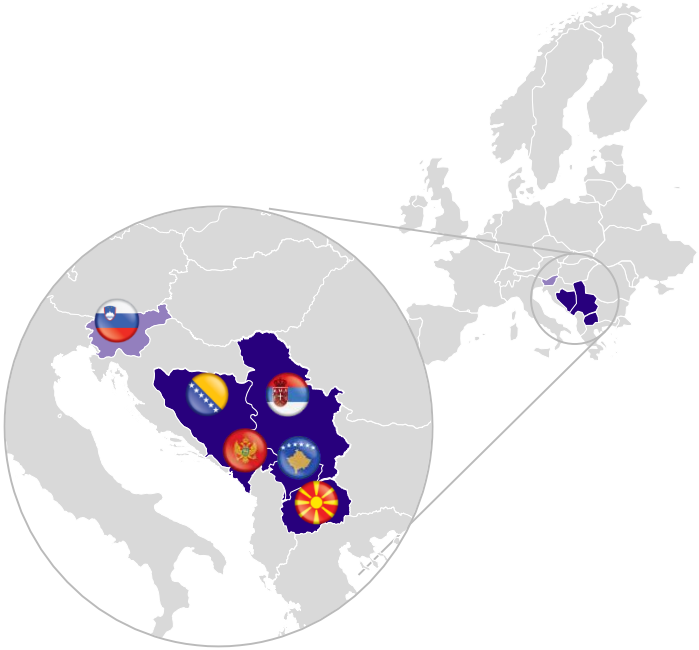
NLB Group – Macro overview

NLB d.d. & 6 subsidiary banks operate in Slovenia (EU member) & 5 SEE countries (convergence to EU)

Slovenia	EUR
GDP (EURbn)	45.8
Real GDP growth (%)	**3.3**
Population (m)	2.1
Household indebtedness[1]	22.0%
Credit ratings (S&P / Moody's / Fitch)	AA- / Baa1 / A

Bosnia and Herzegovina[2]	EUR[3]
GDP (EURbn)	17.1
Real GDP growth (%)	**2.7**
Population (m)	3.5
Household indebtedness[1]	28.4%
Credit ratings (S&P / Moody's / Fitch)	B / B3 / n.a.

Montenegro	EUR
GDP (EURbn)	4.6
Real GDP growth (%)	**3.1**
Population (m)	0.6
Household indebtedness[1]	27.6%
Credit ratings (S&P / Moody's / Fitch)	B+ / B1 / n.a.



Serbia	RSD
GDP (EURbn)	42.8
Real GDP growth (%)	**3.1**
Population (m)	7.0
Household indebtedness[1]	20.3%
Credit ratings (S&P / Moody's / Fitch)	BB / Ba3 / BB

Kosovo	EUR
GDP (EURbn)	6.5
Real GDP growth (%)	**4.1**
Population (m)	1.8
Household indebtedness[1]	15.4%
Credit ratings (S&P / Moody's / Fitch)	n.a. / n.a. / n.a.

North Macedonia	MKD
GDP (EURbn)	10.7
Real GDP growth (%)	**3.2**
Population (m)	2.1
Household indebtedness[1]	23.7%
Credit ratings (S&P / Moody's / Fitch)	BB- / n.a. / BB+

NLB Group

Source: IMF, World Bank, Central banks data, National Statistics Offices, FocusEconomics.
Note: GDP volume and population for 2018; GDP growth forecasted for 2019 by FocusEconomics Consensus Forecast; (1) Includes households loans as % of GDP, Q1 2019, own calculation; (2) Bosnia and Herzegovina is comprised of 2 entities, The Federation of Bosnia and Herzegovina and Republika Srpska; (3) Official currency is BAM – Bosnia-Herzegovina Convertible Mark, pegged to EUR.

Macro Overview

Economic data

- Most countries are likely to grow at around 3% if supported by loose monetary conditions, fiscal easing and solid domestic demand.
- Inflation is likely to remain within target ranges throughout the region.
- Economic growth will be sensitive to the slowdown in the Eurozone and tighter global financial conditions.

Fiscal data

- Environment for necessary reforms seen slightly improved.
- Fiscal imbalances should not aggravate general government borrowing position and public debt seems manageable, nevertheless caution still recommended.
- Large current account deficits and geographical contagion are important drivers to capital flows.

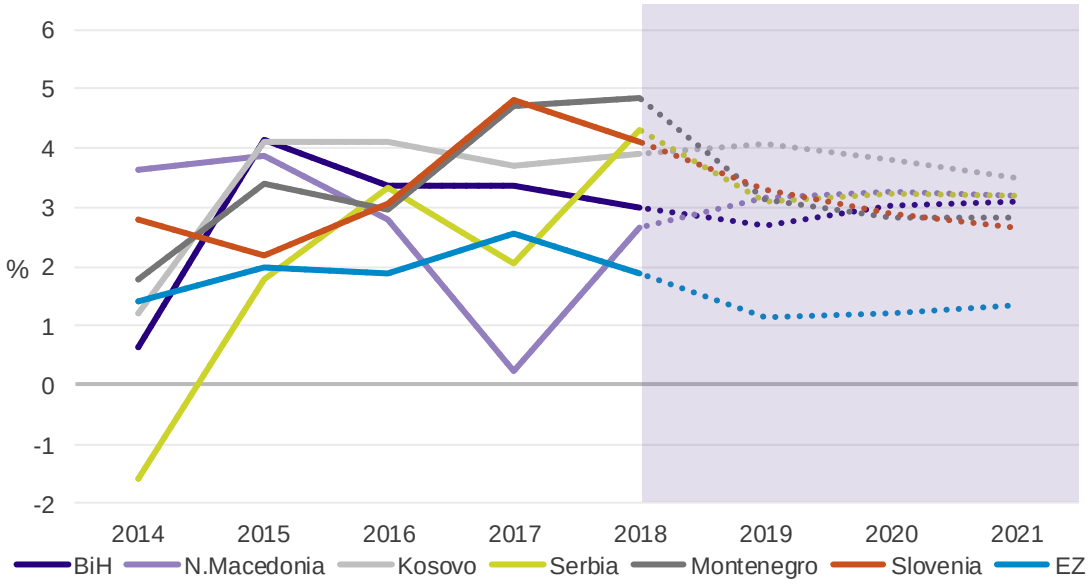
Monetary data

- Positive momentum for higher lending volumes seen ahead.
- As loan to deposit ratios remain firm, a future expansion of the regional banking sectors should not be capped from a refinancing perspective.
- A more pronounced slowdown in Europe or larger capital outflows from EM would moderate favourable trends in the region.

NLB Group

Macro Overview – Economic data

Real GDP growth, %



KEY FINDINGS:

Highest YoY increase of economic growth was registered by **North Macedonia,** growing from 0.2% to 2.7% in 2018, followed by **Serbia** (from 2% to 4.3% in 2018).

Five countries with above 3% expected growth rate of GDP in 2019.

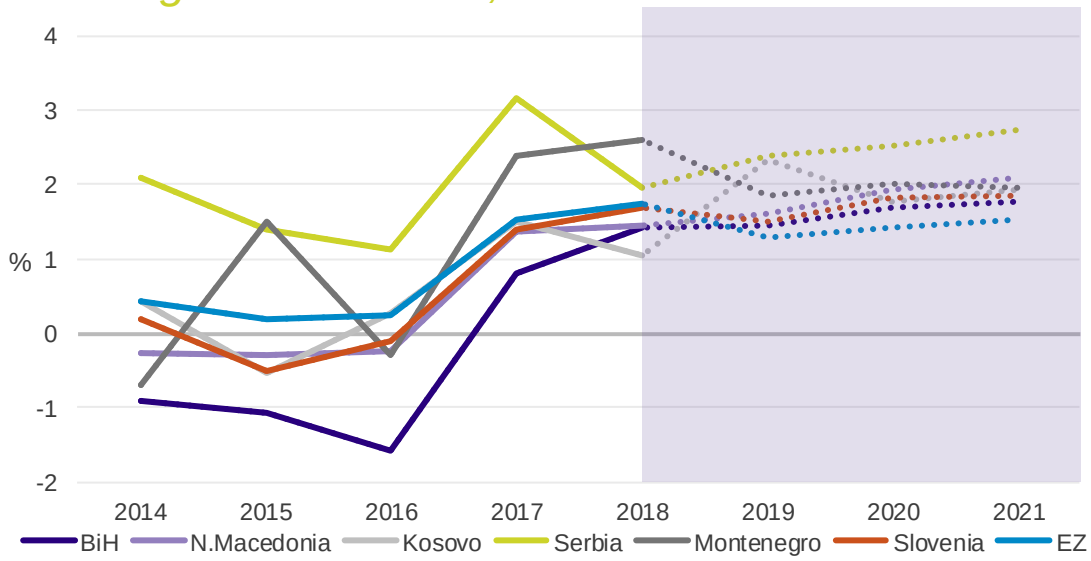
Growth is decelerating sligthly in 2019, but, overall, real GDP growth in the region will remain strong, well above the Eurozone.

Real GDP growth, %	2014	2015	2016	2017	2018	2019	2020	2021
BiH	0.7	4.1	3.4	3.4	3.0	2.7	3.0	3.1
North Macedonia	3.6	3.9	2.8	0.2	2.7	3.2	3.3	3.2
Kosovo	1.2	4.1	4.1	3.7	3.9	4.1	3.8	3.5
Serbia	-1.6	1.8	3.3	2.0	4.3	3.1	3.2	3.2
Montenegro	1.8	3.4	2.9	4.7	4.9	3.1	2.8	2.8
Slovenia	2.8	2.2	3.1	4.8	4.1	3.3	2.9	2.7
Eurozone	1.4	2.0	1.9	2.6	1.9	1.1	1.2	1.3

Sources: National Statistical Offices, FocusEconomics
Note: Consensus Forecasts for 2019, 2020 and 2021

Macro Overview – Economic data

Average inflation rate, %



KEY FINDINGS:

There seems to be a favourable inflation development in all countries. Minor pressures noted in **Kosovo** and **Serbia,** yet with no material impact on the local currency.

CPI continues to be driven by exogenous factors, nonetheless robust domestic demand is expected to lift inflation over the medium term.

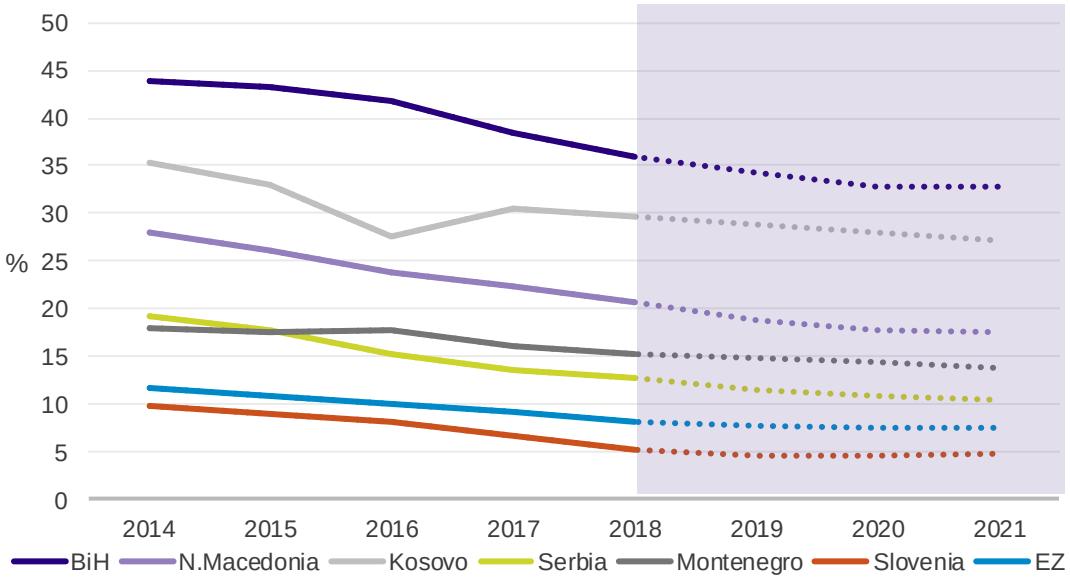
The inflation rates are projected to remain stable close to 2.0 %.

Average inflation rate, %	2014	2015	2016	2017	2018	2019	2020	2021
BiH	-0.9	-1.1	-1.6	0.8	1.4	1.4	1.7	1.8
North Macedonia	-0.3	-0.3	-0.2	1.4	1.4	1.6	1.9	2.1
Kosovo	0.4	-0.5	0.3	1.5	1.1	2.3	1.8	1.9
Serbia	2.1	1.4	1.1	3.2	2.0	2.4	2.5	2.7
Montenegro	-0.7	1.5	-0.3	2.4	2.6	1.9	2.0	1.9
Slovenia	0.2	-0.5	-0.1	1.4	1.7	1.5	1.8	1.8
Eurozone	0.4	0.2	0.2	1.5	1.8	1.3	1.4	1.5

Sources: National Statistical Offices, FocusEconomics
Note: Consensus Forecasts for 2019, 2020 and 2021

Macro Overview – Economic data

Unemployment rate, %



KEY FINDINGS:

Despite strong growth, unemployment is projected to stay at relatively high levels across the whole region, with the exception of **Slovenia.**

In 2018, the biggest improvement was recorded by **BiH, North Macedonia, Slovenia.** Future rates of unemployment are expected to continue to improve at a slower pace.

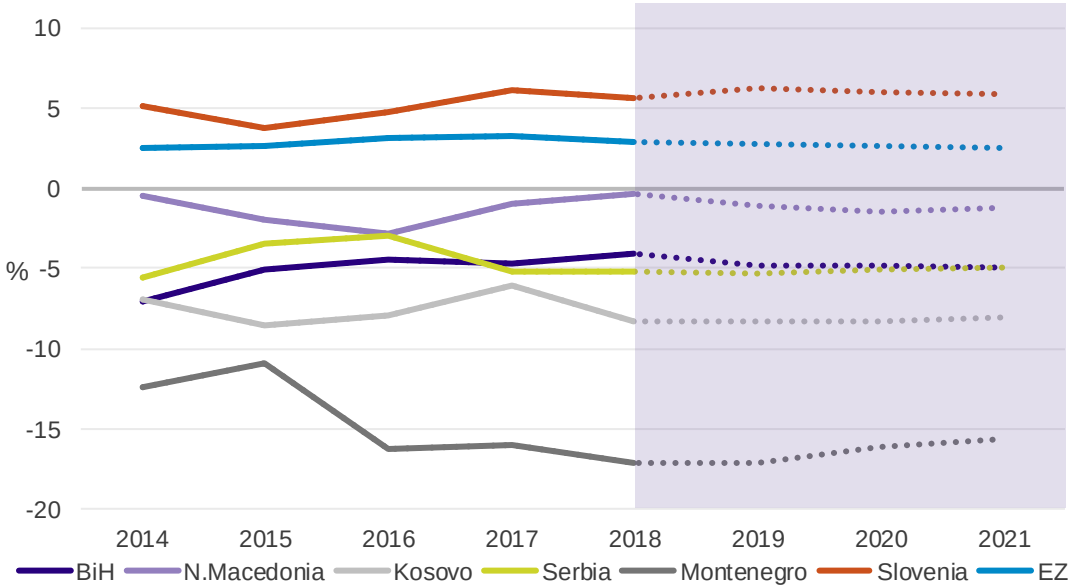
Official unemployment rates seem to be affected by various factors such as shrinking labour force on one side and permanent unemployment on the other.

Unemployment rate, %	2014	2015	2016	2017	2018	2019	2020	2021
BiH	43.9	43.2	41.7	38.4	36.0	34.3	32.8	32.8
North Macedonia	28.0	26.1	23.7	22.4	20.7	18.7	17.7	17.4
Kosovo	35.3	32.9	27.5	30.5	29.6	28.8	28.0	27.2
Serbia	19.2	17.7	15.3	13.5	12.7	11.5	10.8	10.4
Montenegro	18.0	17.6	17.7	16.1	15.2	14.8	14.4	13.7
Slovenia	9.7	9.0	8.0	6.6	5.1	4.6	4.5	4.8
Eurozone	11.6	10.9	10.0	9.1	8.2	7.7	7.5	7.4

Source: FocusEconomics
Note: BiH data for registered unemployment rate; Consensus Forecasts for 2019, 2020 and 2021

Macro Overview – Economic data

Current account, % GDP



KEY FINDINGS:

Huge difference between countries due to various reasons. Trade deficit is being covered either by capital inflows or remittances.

Montenegro continues to underperform heavily in the region.

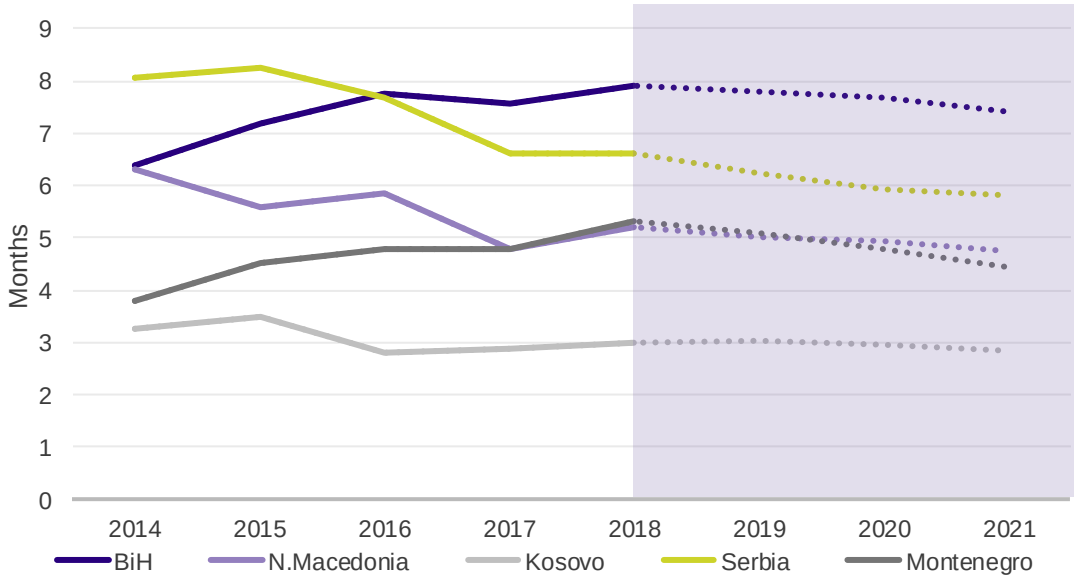
In general, no large reductions of current account deficits can be expected in the near future.

Current Account, % GDP	2014	2015	2016	2017	2018	2019	2020	2021
BiH	-7.1	-5.1	-4.5	-4.7	-4.1	-4.8	-4.8	-4.9
North Macedonia	-0.5	-1.9	-2.9	-1.0	-0.3	-1.2	-1.4	-1.3
Kosovo	-6.9	-8.6	-7.9	-6.1	-8.3	-8.3	-8.3	-8.1
Serbia	-5.6	-3.5	-2.9	-5.2	-5.2	-5.4	-5.1	-4.9
Montenegro	-12.4	-11.0	-16.2	-16.1	-17.2	-17.2	-16.2	-15.6
Slovenia	5.1	3.8	4.8	6.1	5.6	6.3	6.0	5.9
Eurozone	2.5	2.7	3.1	3.2	2.9	2.8	2.7	2.5

Source: FocusEconomics
Note: Estimates for 2018, Consensus Forecasts for 2019, 2020 and 2021

Macro Overview – Economic data

Int. reserves, import coverage in months



KEY FINDINGS:

International reserves expressed as import coverage in months remain stable and seem sufficient.

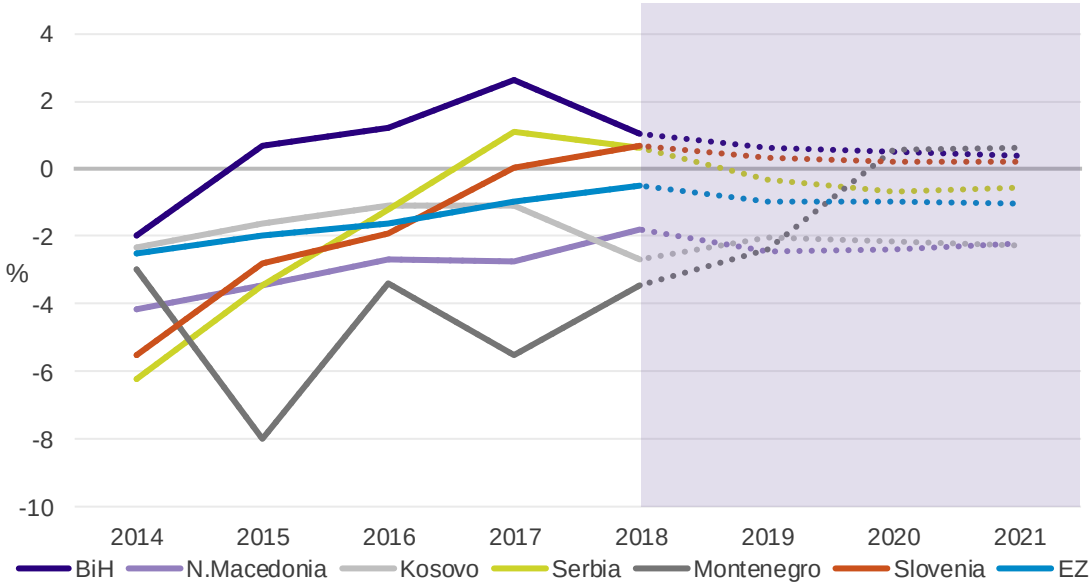
Favourable trendline adds to the stability of foreign exchange rate in **Serbia, North Macedonia** and **BiH.** Unless major geopolitical tensions realize, stable currency regimes remain our baseline scenario.

Int. Reserves (months of imports)	2014	2015	2016	2017	2018	2019	2020	2021
BiH	6.4	7.2	7.7	7.6	7.9	7.8	7.7	7.4
North Macedonia	6.3	5.6	5.9	4.8	5.2	5.0	5.0	4.7
Kosovo	3.3	3.5	2.8	2.9	3.0	3.0	2.9	2.9
Serbia	8.1	8.2	7.7	6.6	6.6	6.2	5.9	5.8
Montenegro	3.8	4.5	4.8	4.8	5.3	5.1	4.8	4.4

Source: FocusEconomics
Note: Estimates for 2018, Consensus Forecasts for 2019, 2020 and 2021

Macro Overview – Fiscal data

Fiscal Balance, % GDP



KEY FINDINGS:

A slight deterioration in the fiscal performance throughout most of the region expected for 2019-20.

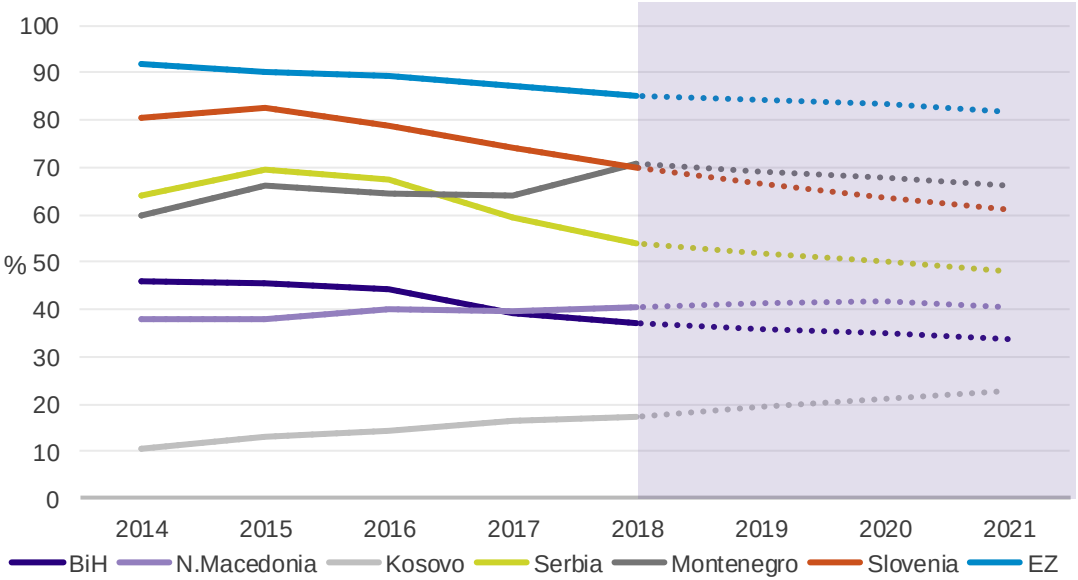
BiH and **Slovenia** are expected to keep balanced public finances, while budget deficit will stay at relatively high levels in **North Macedonia** and **Kosovo**. Levels are expected to improve in **Montenegro.**

Fiscal balance, % GDP	2014	2015	2016	2017	2018	2019	2020	2021
BiH	-2.0	0.7	1.2	2.6	1.0	0.6	0.5	0.4
North Macedonia	-4.2	-3.5	-2.7	-2.7	-1.8	-2.4	-2.4	-2.2
Kosovo	-2.3	-1.6	-1.1	-1.1	-2.7	-2.1	-2.2	-2.3
Serbia	-6.2	-3.5	-1.2	1.1	0.6	-0.3	-0.7	-0.6
Montenegro	-3.0	-8.0	-3.4	-5.5	-3.4	-2.4	0.6	0.6
Slovenia	-5.5	-2.8	-1.9	0.0	0.7	0.3	0.2	0.2
Eurozone	-2.5	-2.0	-1.6	-1.0	-0.5	-1.0	-1.0	-1.0

Source: FocusEconomics
Note: Estimates for 2018, Consensus Forecasts for 2019, 2020 and 2021

Macro Overview – Fiscal data

Public Debt, % GDP



KEY FINDINGS:

Public debt varies intensively between the countries.

Slow convergence of public indebtedness is projected. Reduction of public debt is expected in **BiH, Serbia, Montenegro** and **Slovenia,** while an increase is forecasted for **Kosovo**.

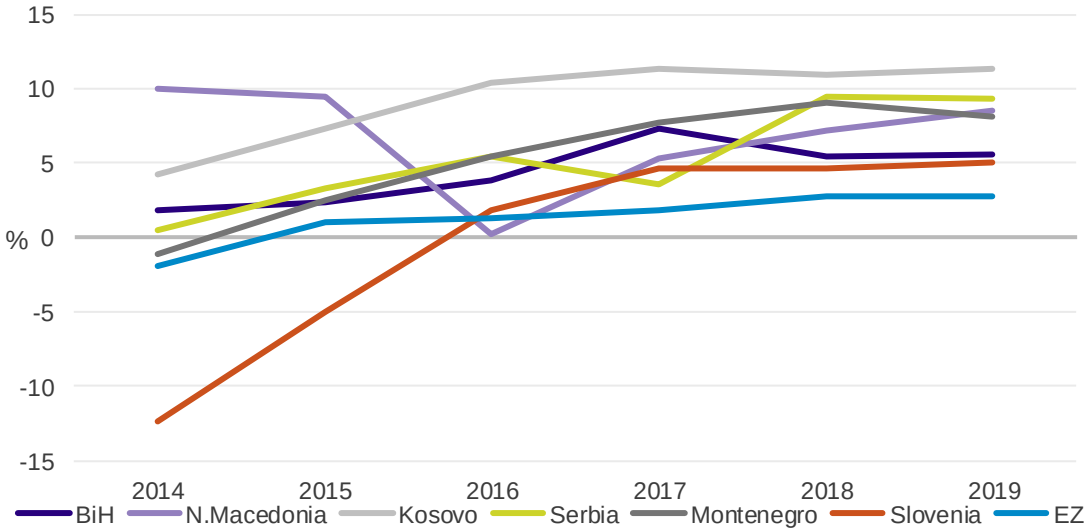
All the countries in the region are below the Eurozone level.

Public debt, % GDP	2014	2015	2016	2017	2018	2019	2020	2021
BiH	45.9	45.5	44.1	39.0	37.1	35.9	35.1	33.8
North Macedonia	38.1	38.1	39.9	39.5	40.5	41.2	41.8	40.3
Kosovo	10.7	13.1	14.4	16.2	17.1	19.3	20.9	22.9
Serbia	64.2	69.5	67.6	59.3	53.8	51.9	50.2	48.1
Montenegro	59.9	66.2	64.4	64.2	70.8	69.0	67.8	66.0
Slovenia	80.4	82.6	78.7	74.1	70.1	66.4	63.4	61.1
Eurozone	92.0	90.1	89.2	87.1	85.1	84.4	83.3	81.6

Source: FocusEconomics
Note: Estimates for 2018, Consensus Forecasts for 2019, 2020 and 2021

Macro Overview – Monetary data

Loans growth (NFC + Households), %



KEY FINDINGS:

Encouraging levels of credit growth in both corporate and retail segment, much higher than in Eurozone.

Kosovo (10.9%), **Serbia** (9.5%) and **Montenegro** (9.1%) leading the credit growth in the region.

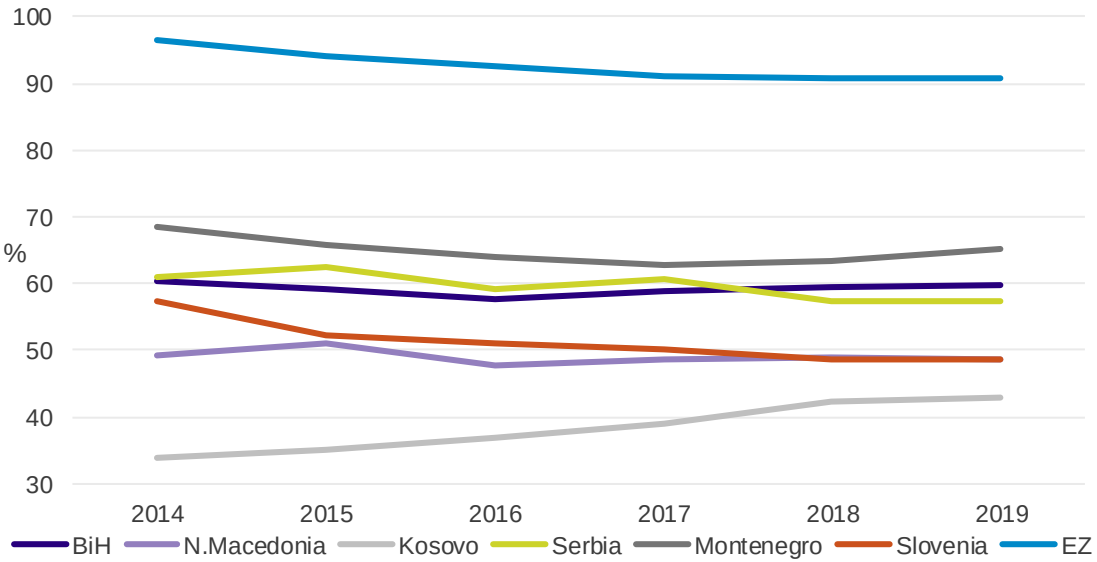
In **Serbia** and **Montenegro** healthy loan dynamics driven by rising consumption and fixed investments.

Loan growth (NFC + Households), %	2014	2015	2016	2017	2018	2019*
BiH	1.8	2.4	3.8	7.3	5.5	5.6
North Macedonia	10.0	9.5	0.2	5.3	7.2	8.5
Kosovo	4.2	7.3	10.4	11.4	10.9	11.4
Serbia	0.5	3.3	5.5	3.6	9.5	9.3
Montenegro	-1.1	2.5	5.4	7.7	9.1	8.2
Slovenia	-12.4	-5.1	1.8	4.6	4.7	5.0
Eurozone	-1.9	1.0	1.3	1.9	2.8	2.8

Sources: National Central banks, ECB, Own calculations
Note: May 2019 YoY growth

Macro Overview – Monetary data

Total Loans (NBS), % GDP



KEY FINDINGS:

Entire region below Eurozone average with an excellent growth potential.

Stable loan to GDP ratio in **BiH** and **North Macedonia**.

In **Montenegro,** the negative trend stabilized last year. In **Slovenia,** the ratio is continuing to fall.

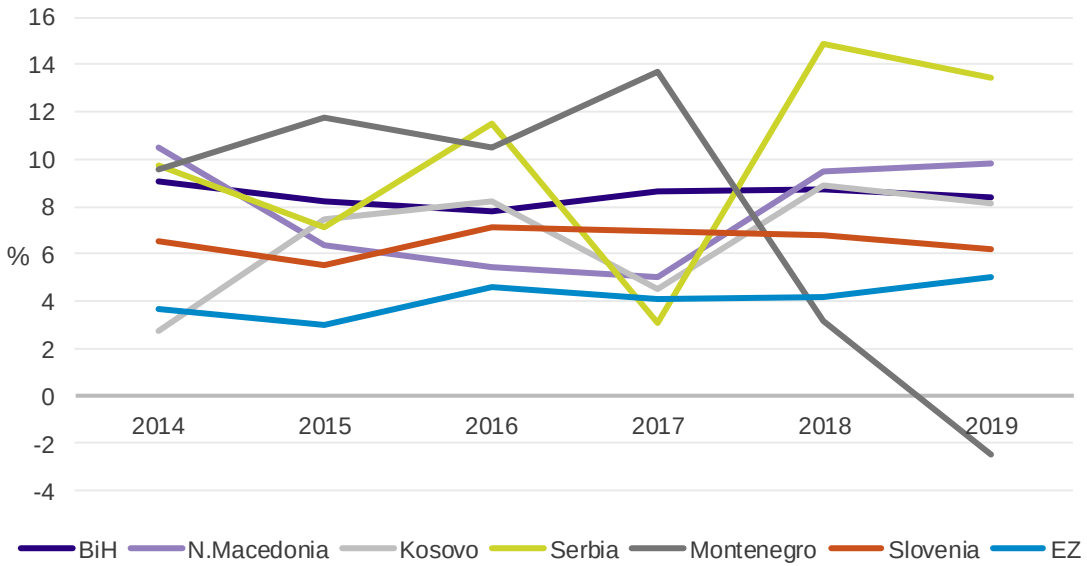
In **Kosovo,** the share of loans in GDP is steadily increasing, but still the lowest among peers.

Total loans, % GDP	2014	2015	2016	2017	2018	2019*
BiH	60.2	59.0	57.5	58.7	59.5	59.8
North Macedonia	49.3	51.0	47.6	48.7	48.8	48.5
Kosovo	33.8	34.9	36.9	38.9	42.4	42.7
Serbia	61.0	62.3	59.1	60.5	57.5	57.4
Montenegro	68.5	65.8	64.0	62.8	63.4	65.1
Slovenia	57.2	52.2	50.9	50.1	48.6	48.6
Eurozone	96.4	94.0	92.6	91.1	90.7	90.7

Sources: National Central banks, ECB, Own calculations
Note: Eurozone Total loans includes only NFC + Households loans; For 2019 Q1 data on loans and GDP;

Macro Overview – Monetary data

Deposits growth (NFC + Households), %



KEY FINDINGS:

There are substantial differences in deposit growth numbers.

Serbia (14.9%) is far ahead of the rest and leads the deposit growth in the region in 2018, followed by strong growth of other countries in the region.

An exception is **Montenegro** (3.2%), which went from having the highest growth in 2017 to the lowest in 2018 and is the only country with growth under the Eurozone level.

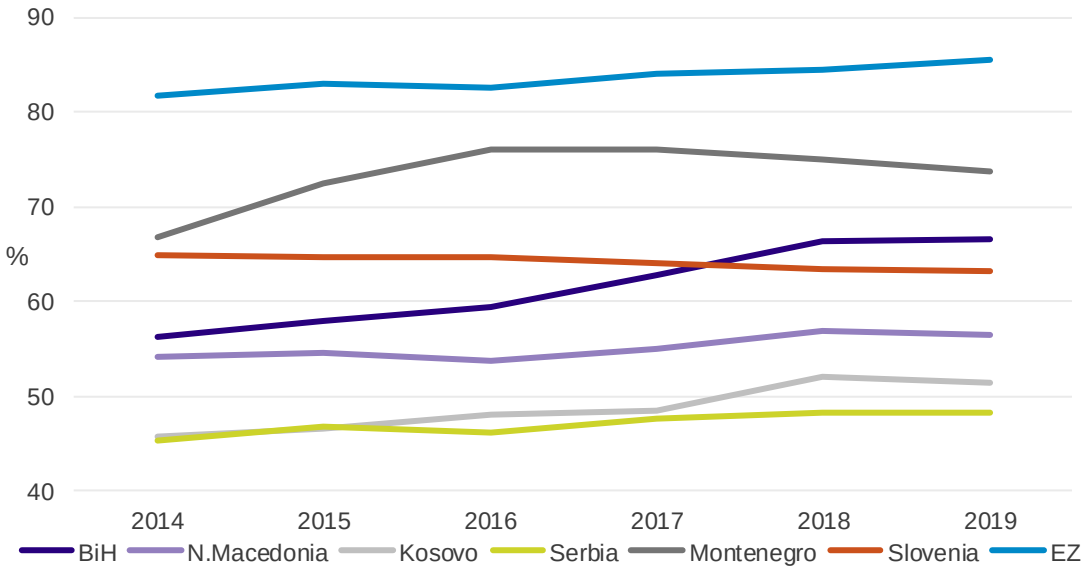
Underdeveloped capital markets participating importantly to deposit growth record.

Deposit growth (NFC + Households), %	2014	2015	2016	2017	2018	2019*
BiH	9.1	8.2	7.8	8.6	8.7	8.4
North Macedonia	10.5	6.4	5.4	5.0	9.5	9.9
Kosovo	2.7	7.5	8.2	4.5	8.9	8.1
Serbia	9.7	7.1	11.5	3.1	14.9	13.4
Montenegro	9.6	11.8	10.5	13.7	3.2	-2.5
Slovenia	6.5	5.6	7.1	6.9	6.8	6.2
Eurozone	3.7	3.0	4.6	4.1	4.2	5.0

Sources: National Central banks, ECB, Own calculations
Note: May 2019 YoY growth. For Montenegro, 2019 data excludes deposits with Atlas Bank, according to CBCG

Macro Overview – Monetary data

Total Deposits (NBS), % GDP



KEY FINDINGS:

Slightly falling, but stable deposit to GDP ratio in **Montenegro** and **Slovenia.**

Growing trend in the rest of the region with the highest increase in **BiH** and **Kosovo.**

Across the whole region the share of deposits in GDP is lower than in Eurozone.

Total deposits, % GDP	2014	2015	2016	2017	2018	2019*
BiH	56.2	57.8	59.4	62.7	66.4	66.6
North Macedonia	54.2	54.6	53.7	55.0	56.8	56.5
Kosovo	45.6	46.6	47.9	48.5	52.0	51.5
Serbia	45.2	46.6	46.1	47.6	48.2	48.1
Montenegro	66.7	72.4	76.1	76.0	74.9	73.8
Slovenia	64.9	64.7	64.7	64.0	63.3	63.3
Eurozone	82.9	82.5	84	84.4	85.1	85.6

Sources: National Central banks, ECB, Own calculations
Note: Eurozone Total deposits includes only NFC + Households deposits; For 2019 Q1 data on deposits and GDP; For Montenegro, 2019 Q1 deposits data excludes deposits with Atlas Bank, according to CBCG

Appendix 3:

EC committments

NLB Group

EC Commitments

Pursuant to **EC decision of 10 August 2018**, NLB and RoS must comply with certain commitments until specified deadlines.

Following the reduction of RoS shareholding in NLB d.d. to 25 % plus one share (the Blocking Minority) in June 2019, the majority of commitments ceased to apply.

The only remaining commitments for NLB are the following**:**

- Until 31 December 2019:
  - NLB must not acquire any stake in any undertaking (**acquisition ban**);
  - NLB must ensure non-discrimination of non-state-owned companies;
  - NLB must maintain the appointment of the Monitoring Trustee.
- NLB also has to **divest its insurance subsidiary NLB Vita** by a specified deadline.

All other commitments set out for NLB in connection with the EC State Aid proceedings (e.g. Risk management and credit policies commitment, ban on cross-border business, reduction of balance sheet) no longer apply.

RoS Commitments valid until 31 December 2019:

- allocate all of the seats and voting rights on the SB and its committees to independent experts;
- ensure each state-owned bank remains a separate economic unit with independent powers of decision.

NLB Group

Appendix 4:

Financial statements

NLB Group

NLB Group Income Statement

(EURm)	1-6 2019	1-6 2018	YoY	Q2 2019	Q1 2019	Q2 2018	QoQ
Interest and similar income	181.3	175.1	4%	90.9	90.4	88.3	0%
Interest and similar expense	-22.3	-23.4	5%	-11.2	-11.1	-11.6	-1%
Net interest income	159.0	151.7	5%	79.7	79.4	76.7	0%
Fee and commission income	111.8	106.0	5%	58.0	53.8	54.4	8%
Fee and commission expense	-29.6	-26.4	-12%	-15.8	-13.8	-14.2	-15%
Net fee and commission income	82.2	79.6	3%	42.1	40.1	40.2	5%
Dividend income	0.2	0.1	86%	0.1	0.1	0.1	28%
Net income from financial transactions	23.0	6.7	-	10.7	12.3	3.9	-13%
Other operating income	-7.0	5.1	-	-9.0	2.0	-8.2	-
Total net operating income	**257.4**	**243.0**	**6%**	**123.6**	**133.8**	**112.7**	**-8%**
Employee costs	-81.4	-80.9	-1%	-41.4	-40.1	-40.6	-3%
Other general and administrative expenses	-44.6	-45.4	2%	-23.4	-21.2	-23.1	-10%
Depreciation and amortisation	-15.4	-13.6	-13%	-7.7	-7.7	-6.8	1%
Total costs	**-141.4**	**-140.0**	**-1%**	**-72.4**	**-69.0**	**-70.6**	**-5%**
Result before impairments and provisions	**116.0**	**103.1**	**13%**	**51.2**	**64.8**	**42.1**	**-21%**
Impairments and provisions for credit risk	-0.7	15.6	-	-4.0	3.3	12.3	-
Other impairments and provisions	-4.8	-1.2	-	-0.8	-3.9	-0.8	79%
Gains less losses from capital investments in subsidiaries, associates and joint ventures	2.5	2.5	-1%	1.4	1.1	1.4	23%
Result before Tax	**113.0**	**120.0**	**-6%**	**47.7**	**65.3**	**55.0**	**-27%**
Income tax expense	-14.9	-10.6	-40%	-9.5	-5.4	-6.3	-74%
Non Controlling Interests	3.8	4.5	-17%	1.8	2.0	1.5	-7%
Net Profit / (Loss) Attributable to Shareholders	**94.3**	**104.8**	**-10%**	**36.4**	**57.9**	**47.2**	**-37%**

NLB Group

NLB Group Statement of Financial Position

(EURm)	30 Jun 2019	31 Dec 2018	YtD
ASSETS			
Cash and balances with Central Banks and other demand deposits at banks	1,460.7	1,588.3	-8%
Financial instruments	3,787.4	3,399.2	11%
o/w Trading Book	116.9	*63.6*	84%
o/w Non-trading Book	3,670.5	*3,335.6*	10%
Loans and advances to banks (net)	108.1	118.7	-9%
o/w gross loans	108.2	*118.8*	-9%
o/w impairments	-0.1	*-0.1*	-13%
Loans and advances to customers	7,280.8	7,148.4	2%
o/w gross loans	7,721.1	*7,627.5*	1%
- Corporates	3,565.7	3,540.4	1%
- State	313.3	360.5	-13%
- Individuals	3,842.1	3,726.5	3%
o/w impairments and valuation	-440.2	*-479.0*	-8%
Investments in associates and JV	42.3	37.1	14%
Goodwill	3.5	3.5	0%
Other intagible assets	29.9	31.4	-5%
Property, plant and equipment	193.8	177.4	9%
Investment property	57.8	58.6	-2%
Other assets	199.9	177.1	13%
Total Assets	**13,164.4**	**12,740.0**	**3%**
LIABILITIES & EQUITY			
Deposits from banks and central banks	44.8	26.8	67%
Deposits from customers	10,753.5	10,464.0	3%
- Corporates	2,294.6	2,337.3	-2%
- State	280.0	261.1	7%
- Individuals	8,178.9	7,865.6	4%
Borrowings	306.8	320.3	-4%
Subordinated liabilities	44.9	15.1	198%
Other liabilities	386.8	256.5	51%
Total Liabilities	**11,536.7**	**11,082.6**	**4%**
Shareholders' Equity	1,587.4	1,616.2	-2%
Non Controlling Interests	40.3	41.2	-2%
Total Equity	**1,627.7**	**1,657.4**	**-2%**
Total Liabilities & Equity	**13,164.4**	**12,740.0**	**3%**

NLB Group